UK Mid-market PE review

Our perspective on Private Equity activity during 2019

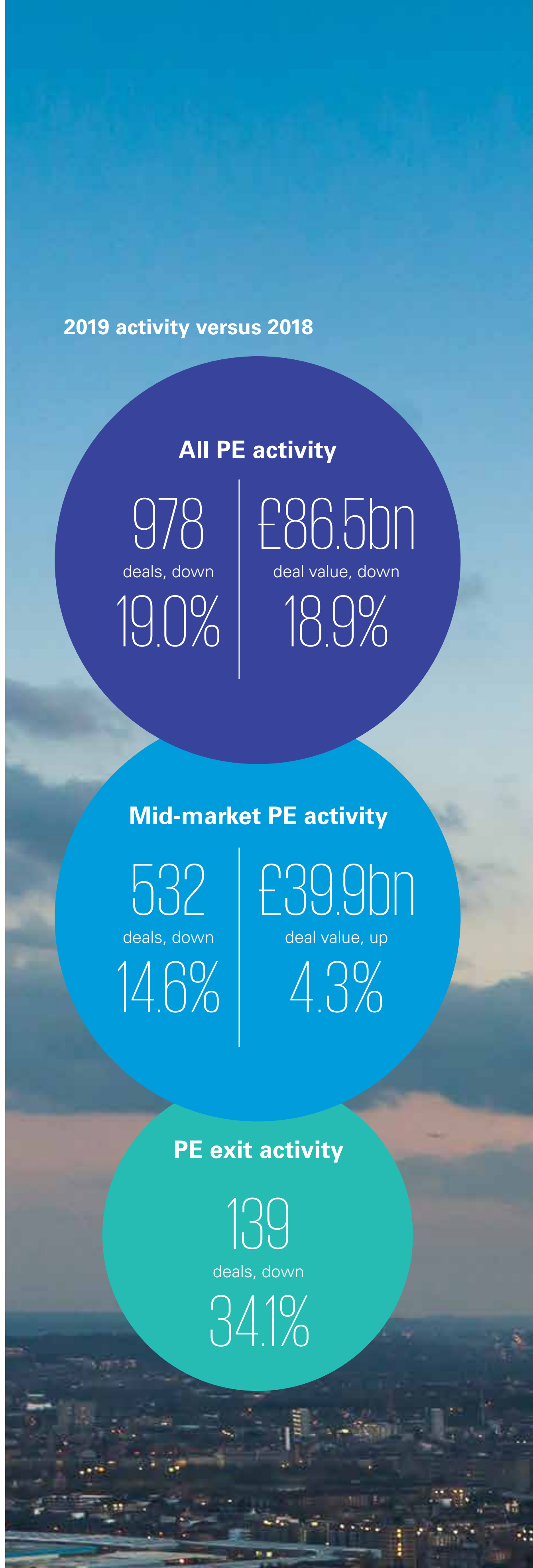
January 2020

kpmg.com/uk/midmarketPE

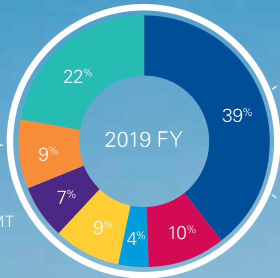
The landscape

Contents

All data provided by Pitchbook



UK mid-market PE deal volume % by sector



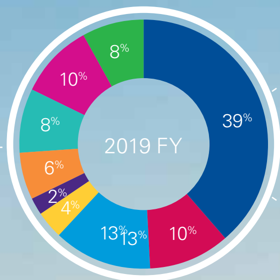
- Business services
- CG&R
- Energy
- Financial services
- Healthcare
- Industries
- TMT

Business services deal volumes **210**

Business services deal values **£12.9bn**

TMT deal volumes **118**

UK mid-market PE deal volume % by UK region



- London Region
- Midlands
- N. West
- N. East
- N.I/IOM/C. Isles
- Scotland
- Yorkshire & Humber
- S. East
- S. West

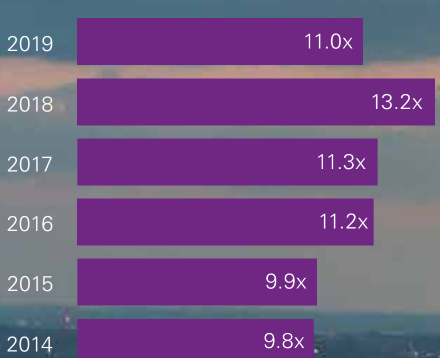
S. West values up **26%**, volumes down **2.4%**

N. West values up **23.3%**, volumes up **3.0%**

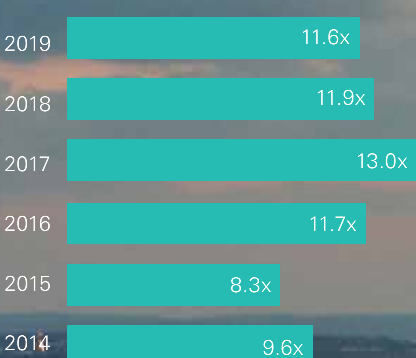
N. East volumes, up **18.8%**

The landscape

All PE EV/EBITDA multiples



All mid-market PE EV/ EBITDA multiples



Period covered 1 January to 31 December 2019

Source: *Pitchbook*

Jonathan Boyers
Partner - UK Head of Corporate Finance

The overall UK PE market continued to face a range of micro and macro challenges during 2019. On a macro level this was driven by ongoing uncertainty over Brexit, worries about the outcome of December's general election, international trade wars and geopolitical turmoil.

On a micro level, the industry faced a conundrum of how to deploy record levels of dry powder in a highly competitive market. As a result, PE investors have become much more pioneering in their investment approaches; we now see them making more minority investments, raising enterprise funds, and looking at longer hold periods. As a result of these pressures, total PE deal volume and value each experienced declines in 2019, of 19.0% and 18.9% respectively.

However, mid-market PE in the UK demonstrated some signs of resilience during 2019 with deal values rising by 4.3% to reach a five year high of £39.9bn, whilst volumes fell by 14.6%, less than the wider PE market. Second half data showed a different picture, where volumes were up by 12.8% versus the first half of 2019, but deal values fell by 13.19%.

Deal valuation multiples, which dropped in the UK PE market overall, also remained largely unchanged in the mid-market at 11.6x, marginally down from 11.9x the previous year. This suggests that PE appetite remains strong for mid-market high-growth businesses that are clearly differentiated and operate in attractive markets.

In this report, we look at the key trends shaping PE investment in the UK market. These include:

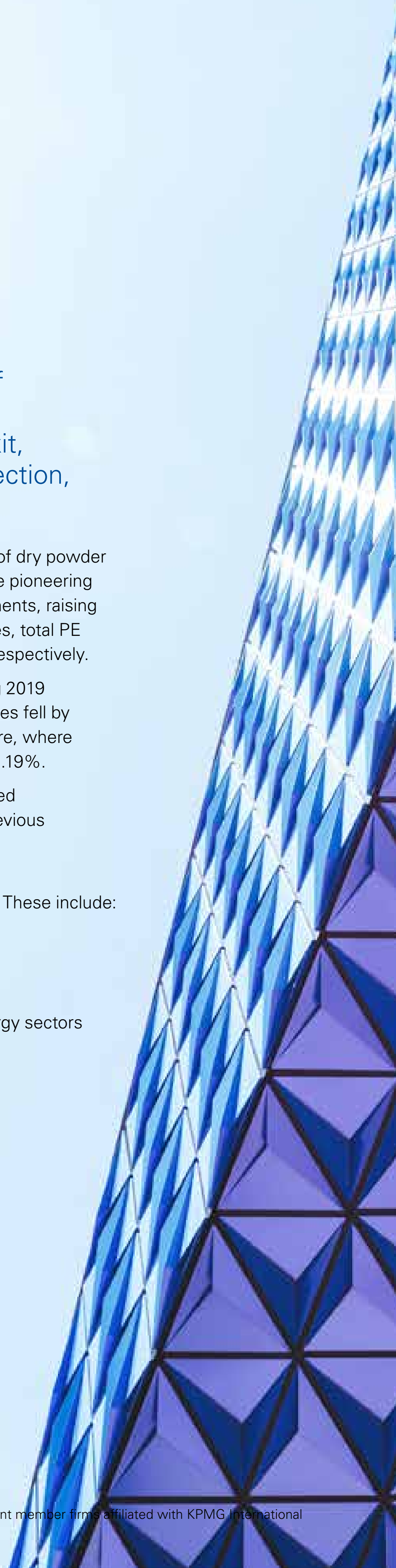
- PE funds' need to balance the pressure to deploy capital with the need to find high-quality scalable assets
- The increase in public-to-private transactions
- The continued strength of the Business Services, TMT, Healthcare and Energy sectors
- PE funds' continued interest in markets outside of London.

Looking to 2020

Significant capital will remain available to invest and the mid-market will remain well-served. We will see well established UK mid-market PE firms changing their deal size focus, as they raise ever larger sums, indeed some of these have also established enterprise funds too, effectively covering all deal sizes.

Family offices will continue to recruit former PE fund managers to launch their own similar investment vehicles and new players from the UK and elsewhere are moving in to fill gaps in the market.

The appetite for technology-driven innovation and disruption will continue to drive investment across a range of sectors, including Business Services, TMT, Healthcare and Energy. Generally, well-run, resilient UK mid-market companies with significant potential for growth should have little trouble finding the capital they need to achieve their ambitions.



Our perspective

Alex Hartley
Partner - Head of Private Equity and London Regions - Corporate Finance

UK mid-market PE activity has proven to be slightly more resilient than the wider PE market. Mid-market PE activity may have slid 14.6% year-over-year to 532 deals in total, but mid-market deal value reached a remarkable five-year high at £39.9 billion. Deal valuation multiples have remained broadly in line with 2018 as investors across the UK, and increasingly North America, continue to see opportunity to create value, drive growth, and earn attractive returns in the UK mid-market.

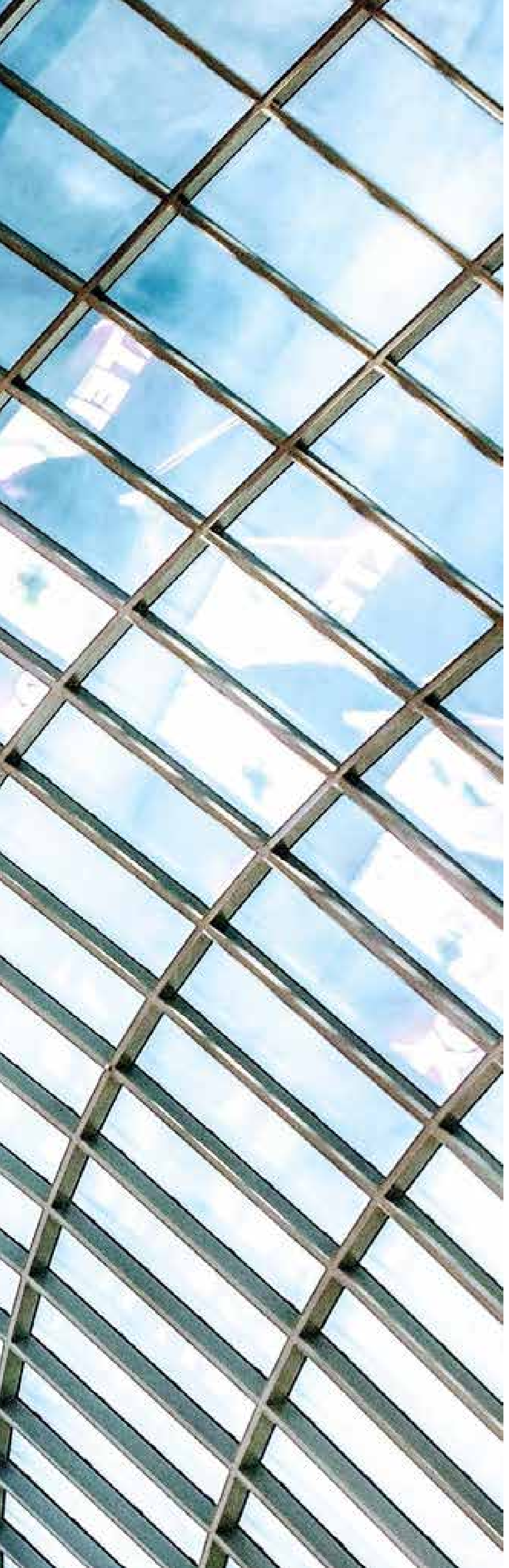
Uncertainty remained the defining characteristic of the UK business and investment climate in 2019, as the Brexit extension announced in the first half of the year eventually led to a general election in December. The impact of this ongoing uncertainty was clearly reflected in 2019's overall Private Equity activity. Total UK PE deal value fell to £86.5 billion in 2019, down 18.9% from 2018. In the end, 978 PE deals were completed, down 19.0% from the previous year.

One of the factors driving declining mid-market PE deal volume is a sharp reduction in PE exits. There were 139 mid-market PE exits in 2019, down 34.1% from the prior year. We expect that many PE funds chose not to bring portfolio business to market in a Brexit year. However, we anticipate to see PE exits bounce back to an extent in 2020 with pent up demand to realise investments.

It is also encouraging to see that mid-market PE investment is not confined to one region, or just a few sectors. PE funds are competing intensely to invest in businesses across the UK, with a noticeable shift toward investment outside of London. PE funds are investing in businesses that are well positioned in attractive end markets with a higher volume of deals in the Business Services, TMT, Healthcare and Energy sectors with good long-term prospects and businesses with the potential to scale and achieve global reach.

The outlook for mid-market PE in 2020 and beyond shows promise. The fundamentals are strong. Debt and equity capital are widely available. We have a majority government which could be in place for the next five years. However, there is also a possibility that the Government shifts its tax policy focus from the end to the beginning of the entrepreneurial journey – all with the purpose of incentivising innovation and business investment. That might mean making changes to Entrepreneurs' Tax Relief, which is why some vendors may be encouraged to cash-out sooner rather than later.

We also have some increased certainty around Brexit, insofar as the UK will leave the EU on January 31, 2020 albeit what happens afterwards remains to be seen. As some uncertainties begin to dissipate, we should see deal volume return, in part driven by the desire of PE funds to exit investments, trim portfolios and return capital to investors together with their desire to deploy significant dry powder into new investments.



Total UK PE activity

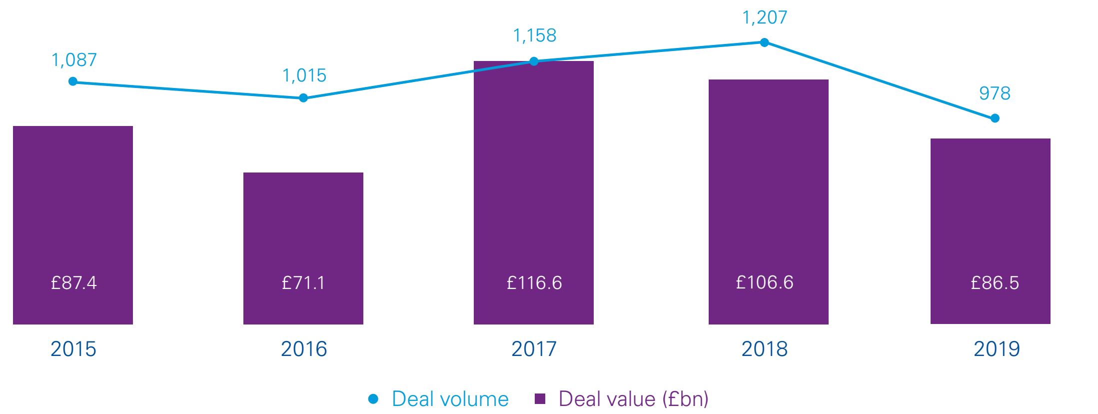
"In many ways the 2019 figures represent a return to the historical norms following the peak in deal volume in 2018 and deal value in 2017"

The UK recorded 978 Private Equity transactions in 2019, for a combined value of £86.5 billion — a double-digit percentage drop from 2018's 1,207 deals worth £106.6 billion. While deal volume declined throughout 2019, H2'19 deal value rose 29.2% compared to H1'19.

As we have acknowledged that political and economic uncertainty dampened appetite for deals, however cyclical factors are also likely contributing factors behind the decline in PE activity. After reaching a new high of 13.2x in 2018, deal multiples fell back to 11.0x in 2019, which remains a healthy multiple by historic norms. This may be due to a reduction in valuations and volumes at the large cap end of the market, where high levels of debt underpinned deals.

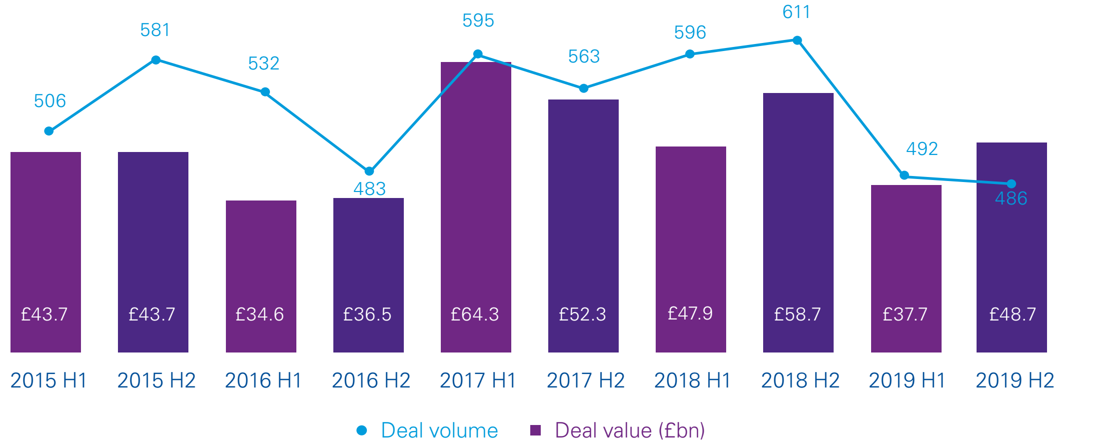
However, in many ways the 2019 figures represent a return to the historical norms following the peak in deal volume in 2018 and in deal value in 2017, as many people saw the Brexit referendum in 2016 as a starting gun to get transactions done ahead of the original March 2019 exit deadline. Deal values can be misleading as an indicator, easily distorted by a few large transactions; deal volume is a better barometer, and we can see that 2019 volume is broadly in line with 2015-16.

Annual UK PE Deal Volumes and values (£bn)



	% YoY Volume Change		% YoY Value Change	
	FY 2018	FY 2019	FY 2018	FY 2019
Total UK PE activity FY	4.2%	**-19.0%**	-8.6%	**-18.9%**

Half year UK PE Deal Volumes (inc. minority)



	% Volume Change			% Value Change		
	H2 2018	H2 2019	H1 v H2 2019	H2 2018	H2 2019	H1 v H2 2019
Total UK PE activity HY	-20.5%	8.5%	**-1.2%**	-12.1%	-16.9%	**29.2%**

Source: *Pitchbook*

UK Mid-Market PE activity

£39.9bn
deal value, up
4.3%

532
deals, down
14.6%

Mid-market PE
58%
of all PE deals

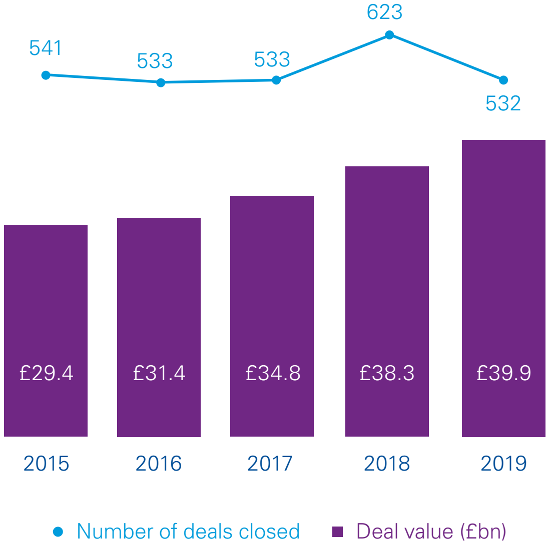
"The fundamentals remain strong. Investment capital is abundant. The most significant constraint on deal making is the availability of differentiated, high-growth, well-run, resilient businesses coming to market."

£39.9 billion in total mid-market PE deal value was closed in 2019 across 532 transactions — the highest total deal value of the past five years, up 4.3% versus 2018.

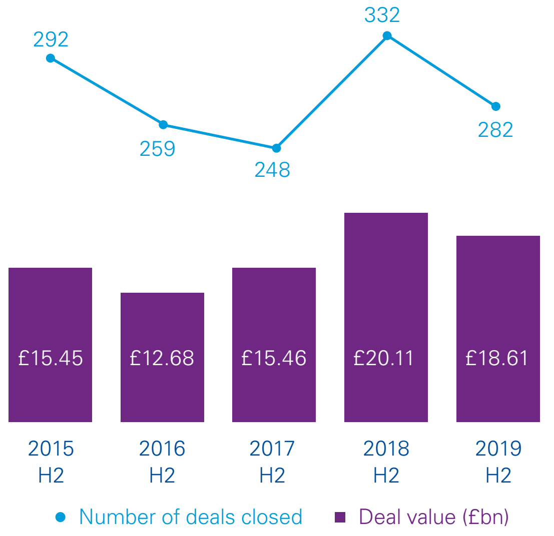
Mid-market PE deal volume has been a steadily rising proportion of overall UK PE activity since 2015, when it accounted for 50%. Mid-market PE deals represented 58% of total UK PE deal volume in H2'19, recovering from a slight dip in the first half of the year. H2'19 saw 282 mid-market PE deals completed, a 15.3% drop from H2'18 but a 12.8% increase from H1'19.

H2'19 deal value fell 13.9% from H1'19, and was down 8.4% in comparison to H2'18. Mid-market PE deal value represented a smaller (37.9%) proportion of total UK PE deal value in H2'19 as compared to the 51.8% share achieved in H1'19. However, the proportion of total deal value achieved in H2'18 is in line with what we've seen from late 2016 to 2018. These figures illustrate the resilience of the UK mid-market at a time of widespread uncertainty. The fundamentals remain strong. A range of debt options are available, and investment capital is abundant. The most significant constraint on deal making is the availability of high-quality, well-run, resilient businesses. The bar has been set higher, and the competition for such assets is intense. This also explains why mid-market multiples have remained reasonably solid: more capital, supported by a strong debt market, chasing fewer quality deal opportunities supporting higher values.

Annual UK mid-market PE deal volumes and values



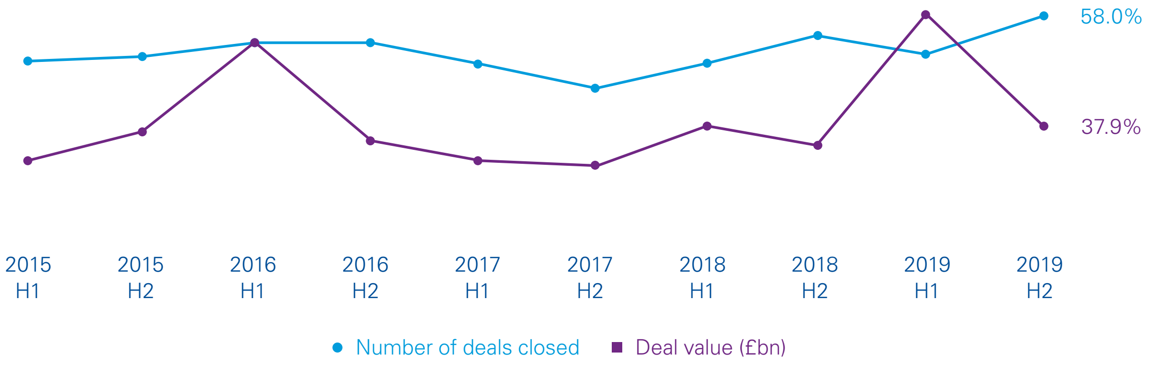
Half year UK mid-market PE deal volumes and value £bn



	% YoY Volume Change		% YoY Value Change	
	FY 2018	FY 2019	FY 2018	FY 2019
Total UK mid-market PE activity FY	16.9%	**-14.6%**	10%	**4.3%**

	% Volume Change			% Value Change		
	H2 2018	H2 2019	H1 v H2 2019	H2 2018	H2 2019	H1 v H2 2019
Total UK mid-market PE activity HY	33.7%	-15.3%	**12.8%**	25.6%	-8.4%	**-13.9%**

UK mid-market PE deals as a % of all UK PE deals



Source: *Pitchbook*

Debt capital perspective

Peter Bate
Director - Debt Advisory

> "Due to the continued competition among private debt funds combined with supply outstripping demand, may see a diversification of fund strategies. There remains a real gap in the market between traditional senior at 4% and unitranche at 7%."

Debt capital has remained committed to Private Equity and substantial dry powder remains for private debt opportunities now in excess of $250bn globally.

2019, and in effect the latter part of the decade, has been dominated by private debt funds, with the banks finding it hard to compete or deploy at a rate equivalent to historic norms. Whilst we are not quite where the US is (where private debt has accounted for 80% of the market), we estimate that more than 50% of mid-market leveraged lending across Europe is provided by private debt funds - indeed it would be unlikely that we would run any process without the involvement of private debt.

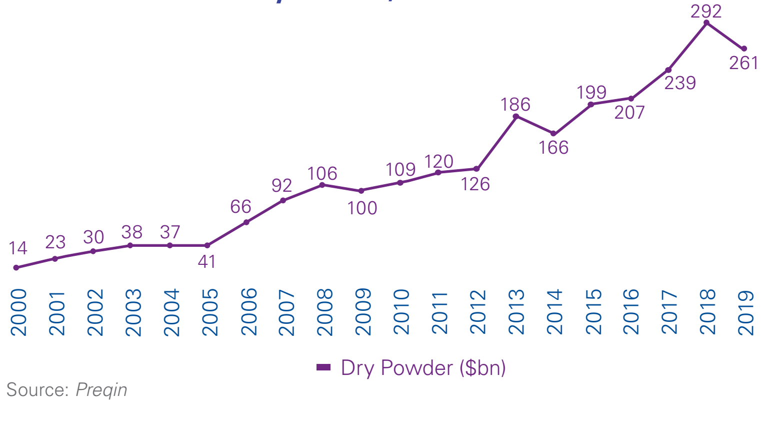
The popularity of private debt funds to finance Private Equity transactions has grown significantly over the last few years. Sponsors became more familiar with the players and recognised the advantages of the product, such as, the flexibility of the capital, including high commerciality on documentation, leverage and EBITDA addbacks, the ability to deploy funds at greater speed compared to banks and increased hold levels to support follow on capital for buy and build strategies or to recap later.

So, what lies ahead for financing in the UK in 2020 and beyond? The first point, I believe, is that private debt is very much here to stay. We must ask whether traditional banks will come back to challenge this dominance and what role banks will play? It is possible that banks could further retrench due to tougher capital requirements and reduced risk appetite (concerns around proximity to next recession resulting in increased cautiousness around leverage levels and looseness of deal terms), but banks still have a role to play in RCFs and in smaller transactions where less leverage is desired.

Due to the continued competition among private debt funds combined with supply outstripping demand we may well see a diversification of fund strategies. There remains a real gap in the market between traditional senior at circa 4% and unitranche at circa 7%. Demand for somewhere between traditional senior and traditional unitranche, both in terms of pricing and leverage, will see more funds looking to write stretch senior deals.

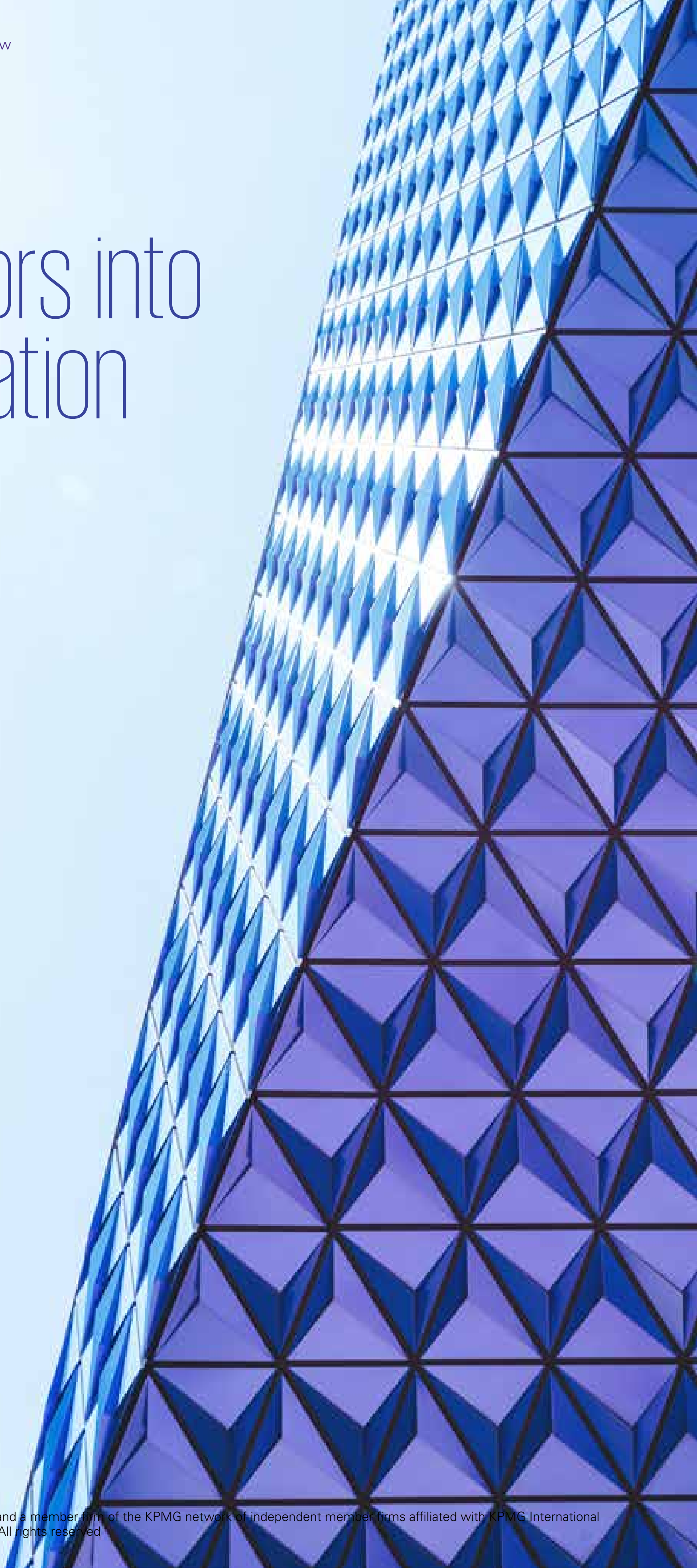
In summary, the last decade has seen unprecedented change across the market but, it will not stand still and we are likely to see far more change over the next few years. The challenge for us and our clients in Private Equity is to both grab the undoubted opportunities that will come, but navigate the challenges ahead.

Global Private Debt Dry Powder, 2000 - 2019

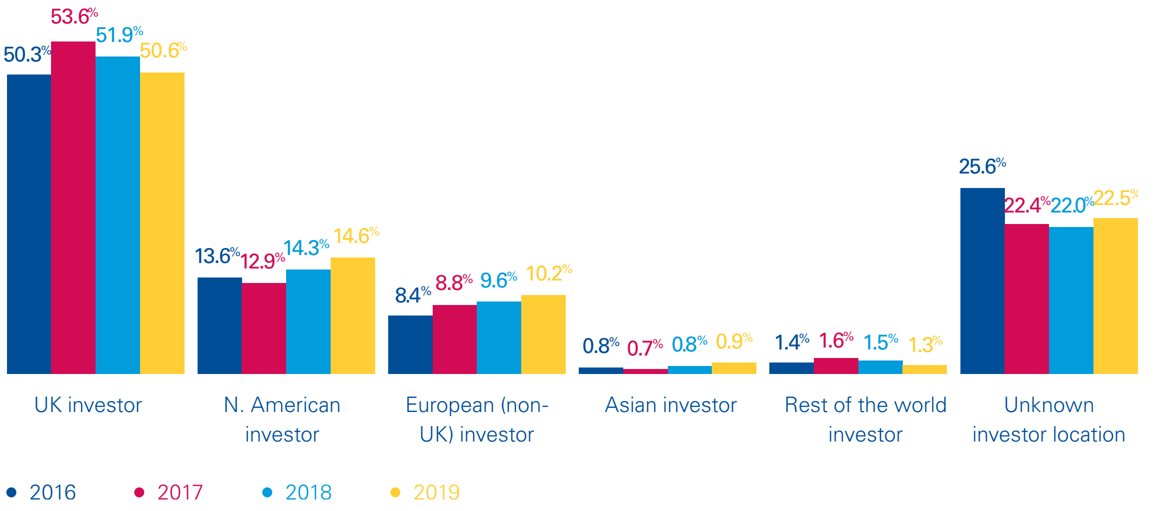


Source: *Preqin*

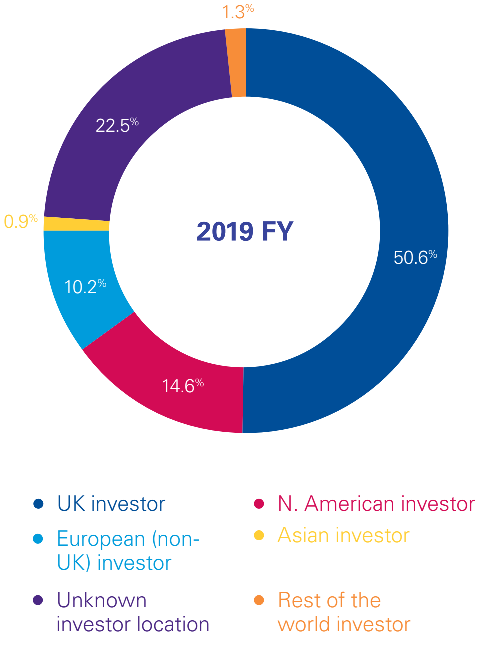
PE Investors into UK by location



North American firms stay active



"Any Brexit-related concerns international PE firms may have had appear to have been outweighed by the pressure to deploy capital. UK technology companies continue to attract considerable international attention, and US-based PE firms appear to be especially bullish regarding technology assets."



Source: *Pitchbook*

The uncertainties around the UK's political and economic future did little to deter investors outside the country. Non-UK European investor activity edged up slightly from 2018 — and North American PE firms were especially active. During 2019, 14.6% of UK M&A deals were driven by North American firms, the highest level reached in the second half of the past four years.

UK technology companies continue to attract considerable international attention. US-based PE firms appear to be especially bullish regarding technology assets, perhaps reflecting their recognition of the global potential of disruptive technology businesses. A number of US TMT-focused funds have set up operations in the UK; where they discern the opportunity to globalise a UK platform, they bid hard — often outbidding UK investors.

The implications of Brexit continued to impact the market and may be a driver of the reduced deal volumes in 2019. Transactions may be delayed or called off because businesses want to have more clarity about Brexit's impact or similarly investors may not be willing to pay full value due to this uncertainty and as a result, the deals do not complete.

Sectors

TMT mid-market PE activity FY 2019

TMT deal values
£10.4bn

TMT values up
37%
and account for
26%
total deal value in the mid-market

TMT deal volumes
118

Business services PE activity FY 2019

Business services deal values
£12.9bn

Business services volumes down
7.5%
and accounts for
39%
total deal value in the mid-market

Business services deal volumes
210

"TMT's staying power as an attractive destination for PE-driven buyouts and other investment seems assured. Energy also showed strength as 2019 closed."

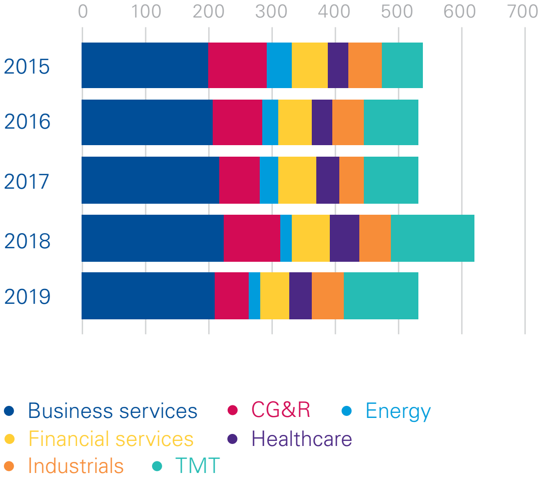
Business services retains top spot as the most popular sector for UK mid-market PE deals. While the sector's 2019 overall deal volume and value both fell slightly year-over-year, Business Services is likely to remain a stalwart of PE investors' focus, given the potential impact of technological disruption and opportunities for scaling.

The UK mid-market TMT sector in increasingly attractive to investors as well. Deal volumes have grown significantly as a proportion of total mid-market transactions since 2014 from 12.7% in 2014 to 26% in 2019. Deal value has also risen sharply, including a 36.8% year-on-year gain in 2019. TMT is highly likely to remain a key target for PE-driven buyouts and other investment.

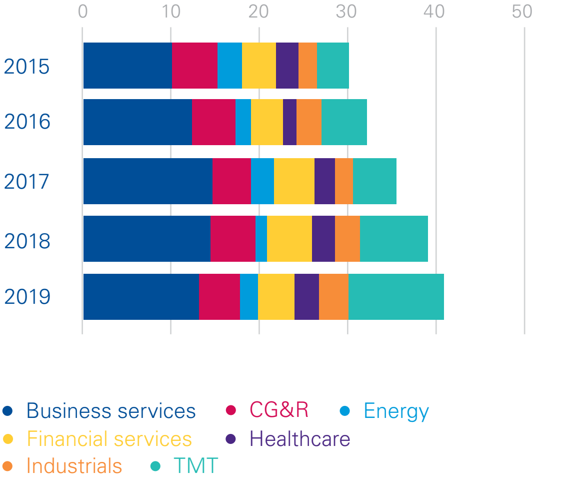
The unprecedented pace of technological development is undoubtedly a factor in the growth of all deal activity. New technologies are incubating the development of a plethora of new businesses across a range of sectors, that are disrupting traditional business models, and PE funds are eager to be part of the revolution.

Energy also showed strength as 2019 closed: Year-on-year deal volume rose 5.3%, and deal value shot up 30.1% over the same period. There was also a sharp rise in deal activity and value between H1'19 and H2'19, which were up by 50% and 27% respectively. The Energy landscape has been changing rapidly in the aftermath of deregulation on the supplier side and the growing emphasis on renewable Energy sources.

Full year UK mid-market PE deal volumes by sector



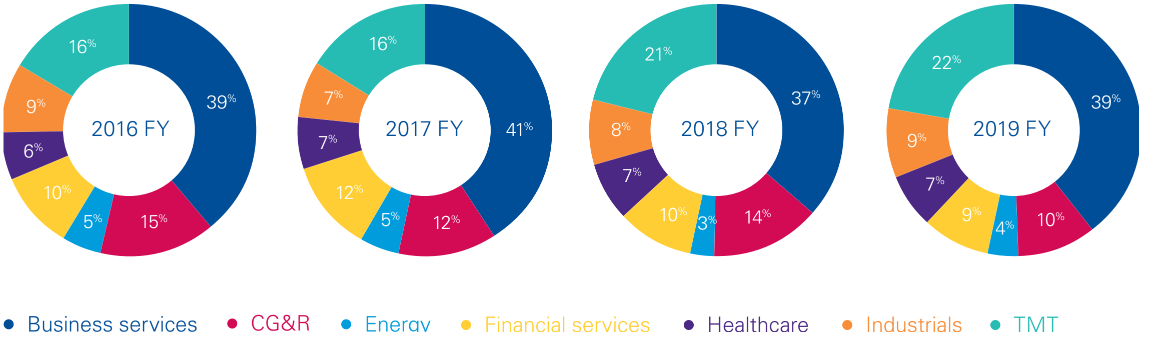
Full year UK mid-market PE deal values £bn by sector



Annual % change deal volume and value by region

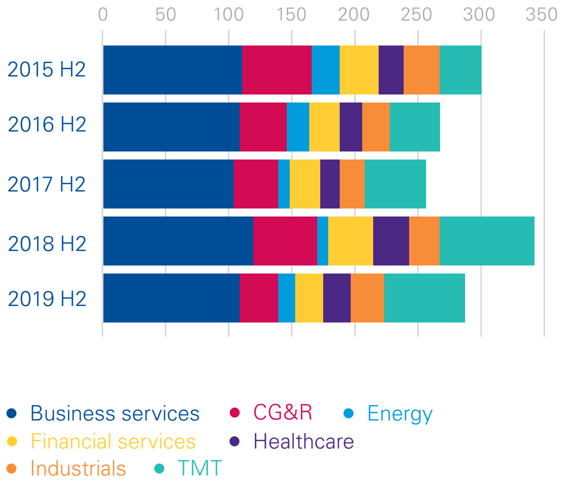
	% YoY Volume Change		% YoY Value Change	
Sector	FY 2018	FY 2019	FY 2018	FY 2019
Business services	3.7%	**-7.5%**	-2.1%	**-9.0%**
CG&R	31.8%	**-37.9%**	19.3%	**-6.4%**
Energy	-26.9%	**5.3%**	-47.0%	**30.1%**
Financial services	-3.2%	**-24.6%**	12.1%	**-16.6%**
Healthcare	31.4%	**-19.6%**	1.6%	**11.6%**
Industrials	36.8%	**-9.6%**	47.3%	**18.2%**
TMT	52.3%	**-9.9%**	56.9%	**36.8%**

UK mid-market PE deal volume % by sector



Source: *Pitchbook*

UK mid-market deal volumes by sector



2019 mid-market consumer goods and retail deal volume fell 38% year-on-year, and deal value also fell by 6.4% over the same period. H2'19 deal activity picked up considerably from H1'19 growing 16%, though deal value fell by 1.0% in H2 2019 from the first half of the year. These figures are perhaps unsurprising and reflect the continued pressure on retailers from a cost base perspective, allied with the ongoing pressure on consumer disposable income.

% change deal volume and value by region

	% Volume Change			% Value Change		
Sector	H2 2018	H2 2019	H1vH2 2019	H2 2018	H2 2019	H1vH2 2019
Business services	16.0%	**-7.8%**	**4.9%**	6.0%	-22.1%	**-23.4%**
CG&R	44.1%	**-40.8%**	**16.0%**	15.6%	-14.8%	**-1.0%**
Energy	-18.2%	**33.3%**	**50.0%**	-37.1%	46.1%	**26.7%**
Financial services	41.7%	**-32.4%**	**0.0%**	63.2%	-36.1%	**-26.1%**
Healthcare	81.3%	**-24.1%**	**46.7%**	41.1%	-4.5%	**5.8%**
Industrials	26.3%	**12.5%**	**35.0%**	58.8%	30.6%	**6.9%**
TMT	60.0%	**-13.9%**	**8.8%**	77.3%	15.1%	**-18.3%**

Source: *Pitchbook*

Sector perspective

Manuel Sammut
Partner, Head of Business & Tech-Enabled Services, Corporate Finance

"Our Business & Tech-Enabled Services M&A practice has witnessed a number of themes during H2 2019 when advising on Private Equity deals. There is significant appetite to invest in tech-enabled service models. These provide investors the opportunity to rapidly scale their investments, improve profitability and commonly benefit from recurring revenue streams, providing strong visibility over future earnings."

Business services continues to be the most active sector for Private Equity investments, with over 200 PE deals completed in 2019, (c.39% of all mid-market deals). This is illustrative of the breadth and innovation within the UK's services-led economy. Despite a decline in broader market M&A transactions in H2 2019 compared to the previous year (-16.9%), Business Services has performed well as a sector, with volumes down 7.8%. Investors have taken some comfort in the often essential services provided by these companies, offering highly-resilient business models and therefore some perceived downside protection against other portfolio investments / business units.

Our Business & Tech-Enabled Services M&A practice has witnessed a number of themes from a number of deals we advised on during H2 2019, when advising on Private Equity deals.

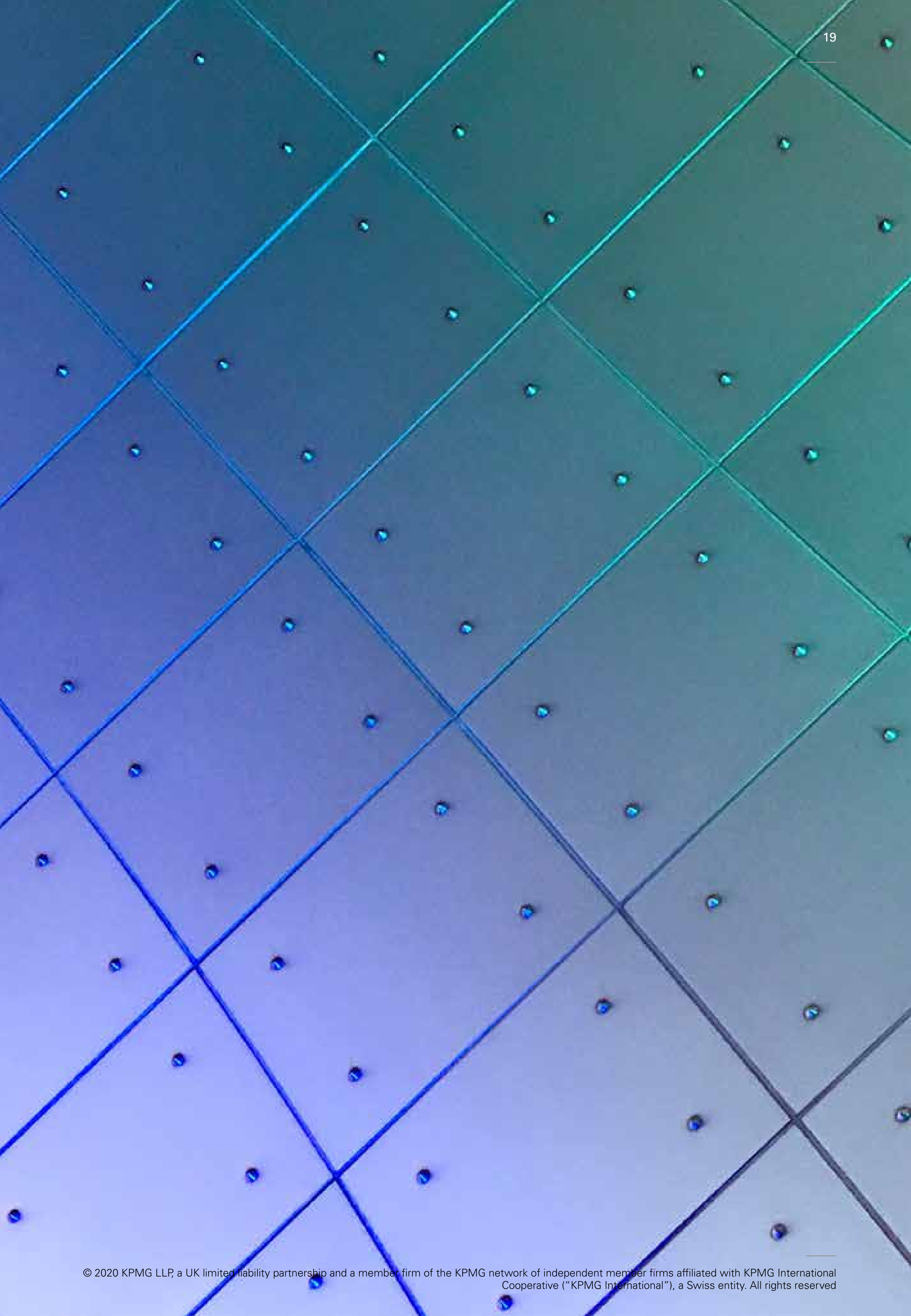
There is significant appetite to invest in tech-enabled service models. These provide investors the opportunity to rapidly scale their investments, improve profitability and commonly benefit from recurring revenue streams, providing strong visibility over future earnings. The acquisition by LDC of education technology specialist TextHelp demonstrated all of these characteristics, having recently transitioned to a SaaS model and therefore providing the incoming funder LDC a strong investment case to capitalise on positive EdTech market fundamentals and scale the business at pace.

The best businesses continue to attract premium pricing. Macquarie's take-private of PTSG, a leading provider of niche testing, inspection and compliance services, was completed at a 143% premium to the closing share price. Private equity valued its contracted revenue base, favourable trends such as tightening regulation, increased safety awareness and demonstrable record of buy-and-build. This transaction underlines PE's interest in the Governance, Risk & Compliance sector as well as public-to-private transactions.

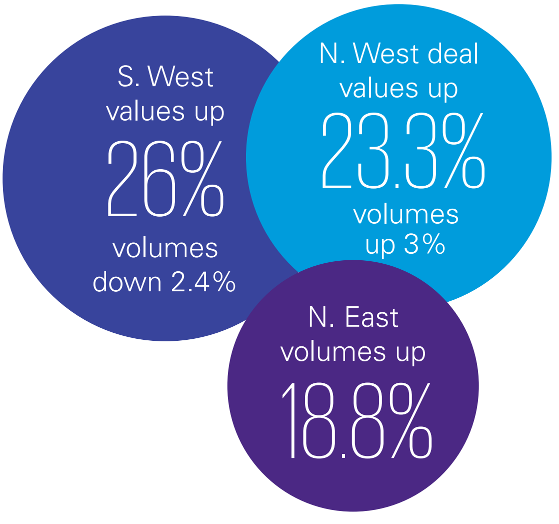
Bolt-on investments constituted over 50% of PE deal volumes and provide an opportunity to deploy significant follow-on capital. The investment by Inflexion-backed Alcumus in eCompliance, a Canada-based workplace safety SaaS business, provided the opportunity for Alcumus to access the North American market. Geographic expansion, as well as the opportunity to add scale, clients and expertise mean that bolt-on acquisitions remain a highly attractive strategy for Private Equity.

The need to meet market expectations, changes in the regulatory environment and a drive towards resilience, exacerbated by recent macroeconomic headwinds, have driven corporates to review their business models. This has included identifying and subsequently divesting of non-core operations. This continues to present a rich source of new opportunities, as evidenced by the recent sale of KPMG's Pensions advisory unit to Exponent. This deal also highlights potential PE opportunities within the Professional Services sector.

Despite broader macro-political and economic uncertainties, we expect these dynamics and themes to continue during 2020 offering significant opportunities for PE within the Business Services sector.



Regions



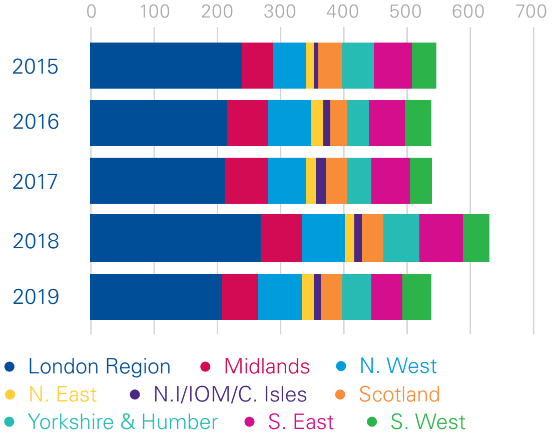
"Many regions held steady in terms of their overall proportion of deal flow as 2019 drew to a close. Whilst deal value grew across most regions with the exception of London (-13.5%) and Yorkshire & Humber (-18.6%) versus 2018."

Funds continue to expand their focus beyond the M25, devoting more effort to getting into the country and identifying investment opportunities that have potential value for them. In the intensely competitive environment of UK mid-market PE, funds must look further afield and be more flexible to identify opportunities and complete transactions.

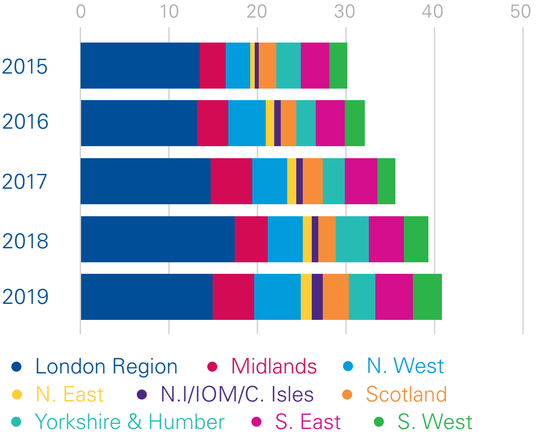
Many regions held steady in terms of their overall proportion of deal flow. The North West continued to see deal volume grow year-over-year, and the North East reached its highest deal volume of the past five years after an exceptional year. The North West is also a significant hub of tech activity with a very mature PE community, so it's little surprise to see deal activity steadily grow in the region. Manchester is commonly held to be Europe's second-largest PE market, and the roughly 20 funds active there tend to drive significant activity in that market. The Midlands is typically resilient; there are some well-developed businesses within the region's industrial heartland irrespective of any Brexit headwinds.

During the second half of 2019, four key regions saw significant jumps in mid-market PE deal volume relative to the first half of the year: Yorkshire & Humber (69%), London (34.1%), the Midlands (33%), and the North West (27%).

Full year mid-market PE volumes by region



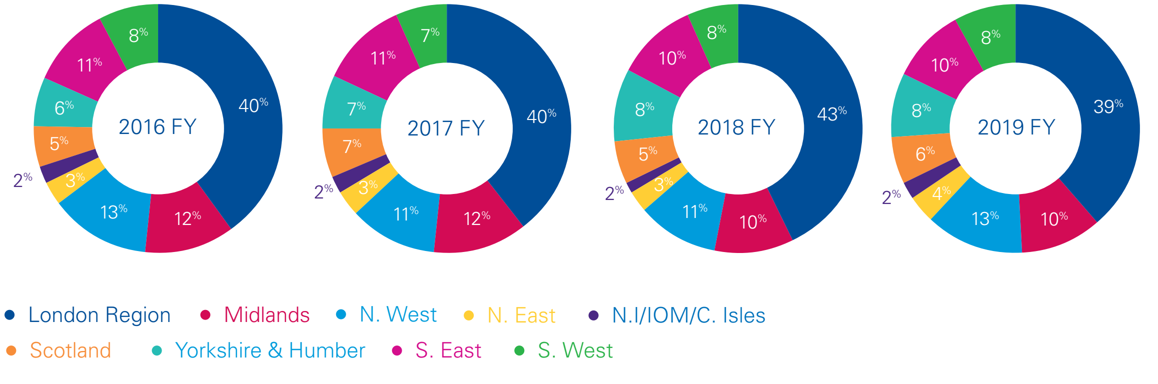
Full year mid-market Private Equity deal values by UK Region



% Change deal volume and value by region

	% YoY Volume Change		% YoY Value Change	
Region	FY 2018	FY 2019	FY 2018	FY 2019
London Region	26.5%	**-22.5%**	17.9%	**-13.5%**
Midlands	-1.5%	**-13.8%**	-21.1%	**25.5%**
N. West	10.0%	**3.0%**	8.5%	**23.3%**
N. East	-11.1%	**18.8%**	-21.8%	**61.4%**
N.I/IOM/C. Isles	-16.7%	**20.0%**	-12.7%	**71.5%**
Scotland	0.0%	**-5.9%**	-9.9%	**40.1%**
Yorkshire & Humber	56.8%	**-24.1%**	54.5%	**-18.6%**
S. East	10.0%	**-21.2%**	8.0%	**5.1%**
S. West	17.1%	**2.4%**	27.4%	**25.9%**

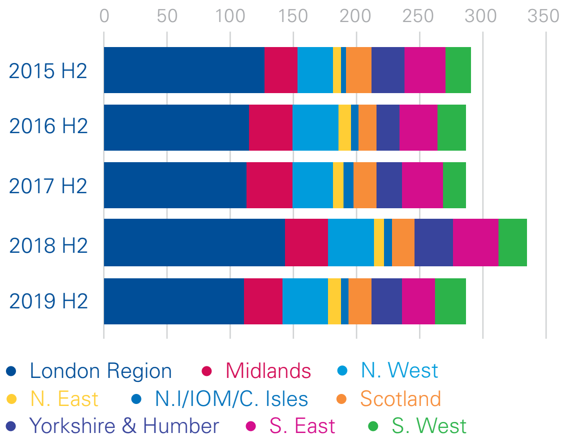
UK mid-market PE deal volume % by UK region



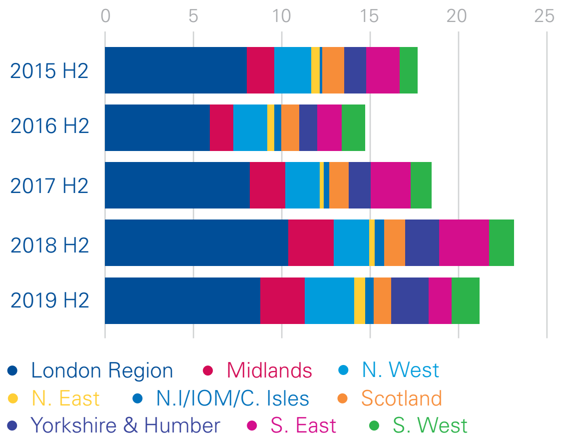
Source: *Pitchbook*

In terms of volumes, many regions experienced an uplift in mid-market PE activity in the second half of 2019. With Yorkshire & Humberside, London, The Midlands and the North West experiencing the most significant uplift whilst second half values generally fell versus the first half of 2019.

UK mid-market deal volumes by region



UK mid-market PE deal values by region



% change deal volume and value by region

	% Volume Change			% Value Change		
Sector	H2 2018	H2 2019	H1 v H2 2019	H2 2018	H2 2019	H1 v H2 2019
London Region	34.9%	**-17.5%**	**34.1%**	-15.1%	27.2%	**10.3%**
Midlands	64.0%	**-22.0%**	**33.3%**	-3.6%	23.4%	**-12.7%**
N. West	10.7%	**22.6%**	**26.7%**	38.0%	4.8%	**-2.5%**
N.East	25.0%	**100.0%**	**0.0%**	98.2%	33.7%	**-34.5%**
N.I/IOM/C.Isles	40.0%	**-28.6%**	**-28.6%**	-12.1%	82.9%	**-47.0%**
Scotland	12.5%	**-27.8%**	**-35.0%**	-10.1%	4.2%	**-52.5%**
Yorkshire & Humber	93.3%	**-6.9%**	**68.8%**	3.2%	66.8%	**60.8%**
S. East	26.7%	**-52.6%**	**-47.1%**	-50.8%	21.1%	**-61.0%**
S.West	5.0%	**0.0%**	**0.0%**	9.3%	23.3%	**-27.9%**

Source: *Pitchbook*

Regional perspective

Richard Stark
Director – Corporate Finance and Head of PE in the North

"The North West is the second most active region representing around 13% of all mid-market PE deal activity. Despite the consistent volume of deals involving North West companies, the imbalance between demand from PE to deploy capital and the number of opportunities to invest into high quality buyout assets is on-going."

Spotlight for the North West

The North West is often referred to as the second largest region for Private Equity not just in the UK, but in Europe. The volume of PE firms based in Manchester in particular has increased to over 20 during the past decade, accelerated by the entry of International investors such as Waterland and Ardenton in recent years and UK mid-market funds like Westbridge Capital in 2019.

During 2019 there were 68 mid-market Private Equity deals involving North West companies, which represented a fairly consistent level of activity to that seen over the past five years, where the average is 63 deals per annum. Despite the steady volume of deals involving North West companies, the imbalance between demand from PE to deploy capital and the number of opportunities to invest in buyout deals in high quality assets is an on-going dynamic.

The North West is the second most active region (behind only London) representing around 13% of all mid-market PE deal activity. Looking through the half year lens, it was noteable to see the second half of 2019 experience a boost in deal volume of 26.7%, versus the first half of 2019. There were 38 mid-market PE deals closed in the North West during the second half of the year which drove an annual uplift of 3% during the whole year. The increase in volume could in part be attributed to the impact of the General Election in December 2019, with vendors keen to close deals before the result of the vote.

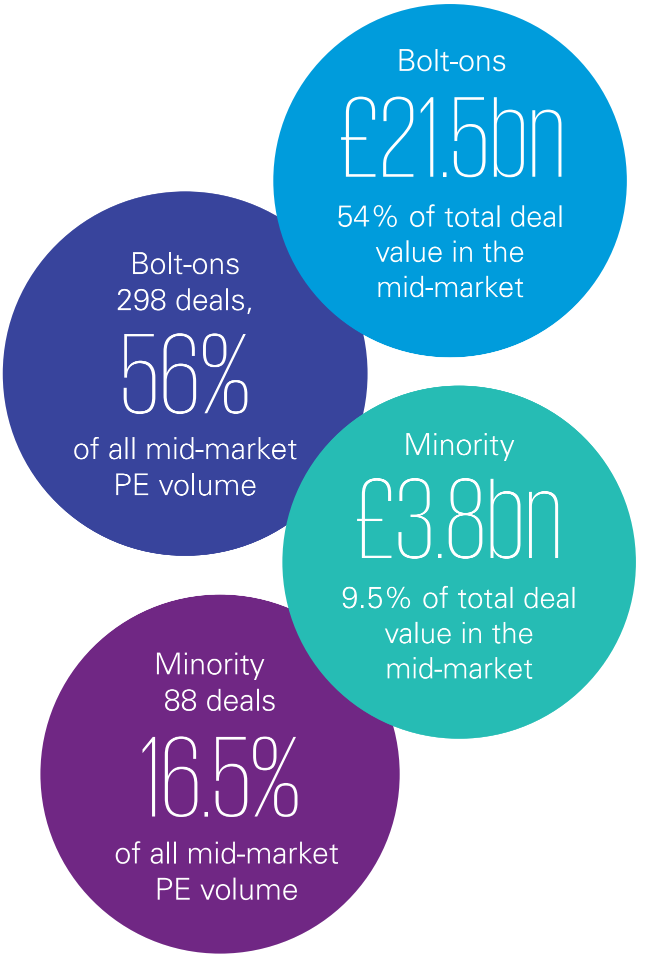
The imbalance of supply has manifested itself in the continued skew of activity towards bolt-on acquisitions for portfolio companies (56% of mid-market PE deals nationally) as funds seek to underpin their investment levels, and reflected in our activity, with KPMG advising LDC-backed Fishawack Communications on four acquisitions and more recently advising on the sale of Pure Cottages to Vitruvian (previously LivingBridge) backed Sykes Cottages.

Whilst exits have occurred during 2019, such as the Pure Cottages and Sykes deals, generally Private Equity has not viewed 2019 as a prime year to generate optimal exit returns, and this is evident in the reduced volume in PE exits (138 nationally in 2019 versus 211 in 2018). However, the result is a backlog of PE exits which should come to market in 2020 and 2021 and boost deal volumes.

In terms of wider PE trends, we continue the see Private Equity evolve and flex their investment styles in order to deploy capital across different parts of the market and to adapt to the competitive environment. The BGF continues to be prolific in investing in minority stakes in regional business, and we have seen lower-mid market investors such as YFM and Maven raise buyout funds (on the back of Mobeus and NVM in 2017 and 2018). Meanwhile, alternative capital options have continued to gain traction in the market, as evident by Three Hill's acquisition of Trak Global and Tosca's backing of Great Annual Savings, providing flexibility for shareholders and adding yet more to the wall of capital looking to be deployed.

Deal types

> "In an environment where lots of Private Equity funds are chasing fewer deals, bolt-ons are a great way for them to deploy capital and create incremental value for existing investments."



Bolt-on transactions play an important role in deal flow, making up 56% of all mid-market PE deals. They serve as an efficient and relatively low-risk strategy for PE firms to deploy capital, often supporting portfolio companies to consolidate a fragmented market, enter new geographies, or expand product or service offerings. Unsurprisingly, bolt-ons have formed the largest component of UK mid-market PE deal activity for some time.

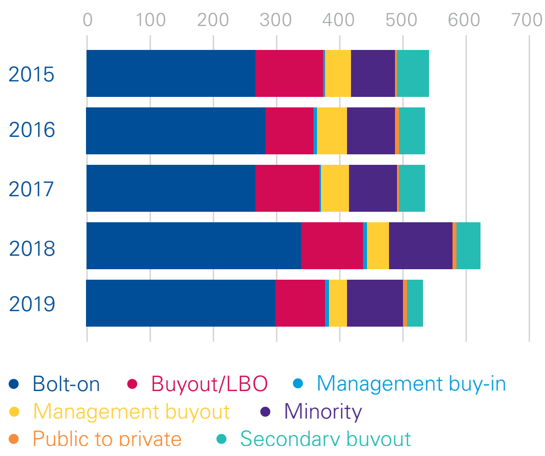
Secondary buyout volumes declined as a proportion of total PE deal volume. This is likely to reflect PE funds' caution in launching sales processes in the face of uncertainties regarding Brexit and the political environment. As this uncertainty lifts in 2020, we should expect PE funds to begin pursuing exits to return cash to investors and facilitate new fundraisings.

Minority deals now represent 16.5% of all mid-market PE volumes, an increase from 11.3% in 2014. However, annually we saw 88 minority deals during 2019 representing a marginal fall of 12% versus 2018. This full is due largely to a contraction in volume during the second half of the year which saw volumes drop by 27.5%.

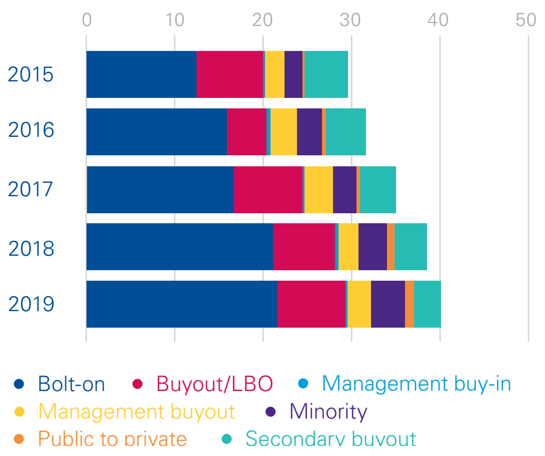
Public-to-private deals are a continuing trend. We've seen a flurry of IPOs in the last four to five years in the UK, and in a number of cases, company founders and management teams opted to stay with the organization after listing. In time, some of these management teams have grown frustrated with their post-IPO experience and are choosing to move back to private ownership. PE funds are ideally suited to supporting management teams in this ambition, and they can often pay a premium to the market value and match or beat the values being paid by trade acquirers; this is making "take private" deals more attractive.

Alongside this—though not flagged in our PE specific data—is an increase in the volume of corporate carve-outs we are seeing, driven in part by companies' need to pay down debt.
These previously inaccessible non-core assets could prove attractive to PE funds, who we expect to focus on this area of the market more in 2020.

Full year UK mid-market PE volumes by deal type

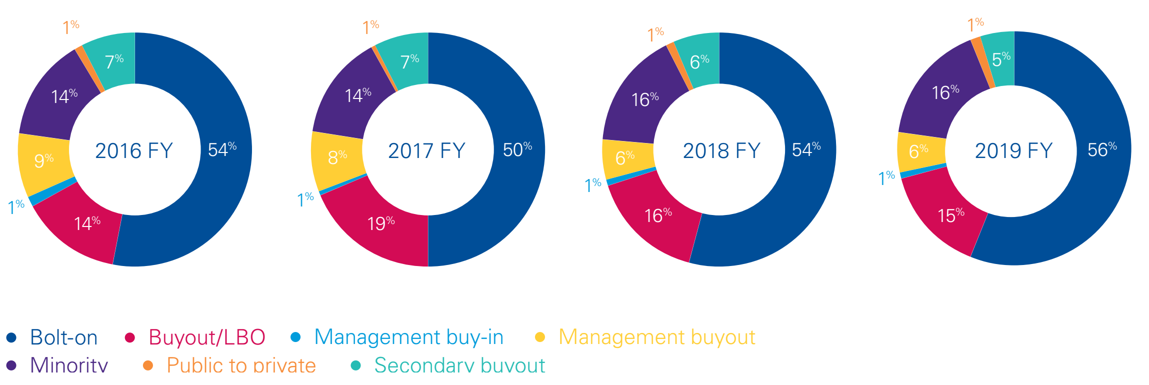


Full year UK mid-market PE values £bn by deal type



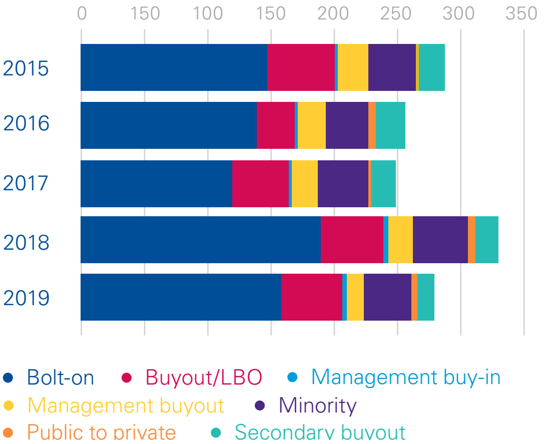
	% YoY Volume Change		% YoY Value Change	
Deal type	FY 2018	FY 2019	FY 2018	FY 2019
Bolt-on	26.5%	**-12.1%**	26.6%	**2.3%**
Buyout/LBO	0.0%	**-19.4%**	-8.5%	**9.3%**
Management buy-in	50.0%	**-16.7%**	47.2%	**-29.1%**
Management buyout	-22.7%	**-11.8%**	-28.2%	**13.5%**
Minority	29.9%	**-12.0%**	14.0%	**20.9%**
Public to private	133.3%	**0.0%**	155.4%	**35.5%**
Secondary buyout	0.0%	**-35.9%**	-8.7%	**-17.1%**

UK mid-market PE deal volume % by deal type

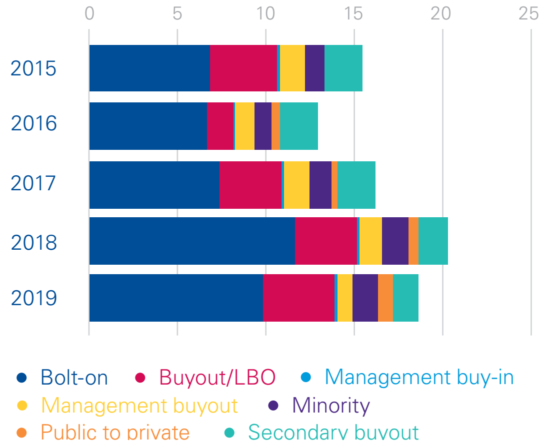


Source: *Pitchbook*

H2 mid-market PE deals by types by volume



H2 mid-market PE deals by types by value



	% YoY Volume Change			% YoY Value Change		
Deal type	H1 V H2 2019	H2 2018 v H2 2019	H2 2017 V H2 2018	H1 V H2 2019	H2 2018 v H2 2019	H2 2017 V H2 2018
Bolt-on	**14.5%**	-17.3%	57.9%	**-16.8%**	-15.5%	57.9%
Buyout/LBO	**63.3%**	-3.9%	18.6%	**9.1%**	14.9%	-0.4%
Management buy-in	**50.0%**	0.0%	50.0%	**130.8%**	5.4%	26.5%
Management buyout	**-12.5%**	-30.0%	-4.8%	**-48.9%**	-32.0%	-10.0%
Minority	**-27.5%**	-15.9%	10.0%	**-40.5%**	-3.4%	19.3%
Public to private	**150.0%**	-16.7%	100.0%	**315.0%**	55.9%	79.0%
Secondary buyout	**27.3%**	-22.2%	-5.3%	**-17.1%**	-16.5%	-21.9%

Source: *Pitchbook*

Public to Private Transaction perspective

Helen Roxburgh
Partner - Corporate Finance

"No longer the preserve of the larger end of the PE market, P2Ps are increasingly being actively considered by mid-market PE funds."

2019 was a strong year for P2Ps, with continued high levels of interest from Private Equity. KPMG's corporate finance team certainly saw this continued interest playing out, including advising Premier Technical Services Group plc on the £265m public offer by the Macquarie Group, and advising Asterion Industrial on its £65m public offer for Aggregated Micro Power Holdings plc.

There remain a number of 'unloved' – and often undervalued – mid-market companies on the public markets, where the impact of the EU's Mifid II reforms has often resulted in reduced analyst coverage and a corresponding impact on liquidity. Consequently, there are a number of public companies with market values tracking behind that of their peers, with a share price sometimes unresponsive to the announcement of favourable news or performance, or a shareholder base less supportive of continued capital investment, often leaving a disincentivised management team for whom a P2P can provide an attractive alternative for driving growth. Activist investors are also playing more of a role in pushing boards to seek buyers where they see undervalue.

The traditional challenges associated with P2Ps for Private Equity – including the lack of exclusivity and associated interloper risk, thorough to disclosure requirements and what can be an onerous process under the Takeover Code – have increasingly been areas where Private Equity have found a route to get comfortable, in order to unlock a broader range of interesting targets.

The significant amount of dry powder in the Private Equity industry, combined with a highly competitive private M&A market, means that many Private Equity funds in the mid-market are now looking seriously at some of these 'forgotten' public companies as platform or bolt on acquisitions. No longer the preserve of the larger end of the PE market, P2Ps are increasingly being actively considered by mid-market PE funds.

Although the market responded favourably to the removal of some of the uncertainty over Brexit and the potential for a change of government over the latter part of 2019, many of the underlying dynamics in favour of P2Ps remain. I believe that this, combined with financial and operational synergies available upon delisting and a traditionally greater capacity for leverage once private, continues to provide a real opportunity to broaden the addressable market of attractive targets for Private Equity as we progress through 2020.

Deal multiples

> "Fund managers everywhere are under tremendous pressure to deploy the vast amount of capital they've collected. PE firms are accepting the trade-offs required in order to secure the best assets, this may include accepting slightly lower intended returns or longer hold periods."

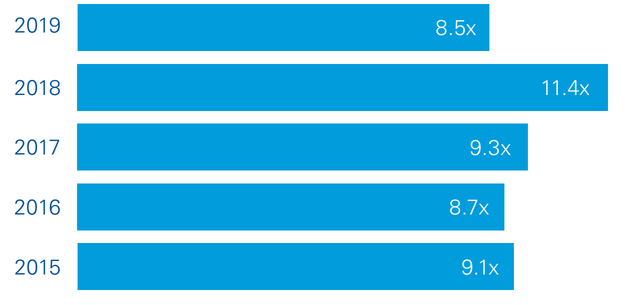
While deal multiples dropped in the UK PE market overall, mid-market PE deal multiples remained steady: 11.6x in 2019, down from 11.9x in 2018.

The resilience of mid-market deal multiples indicates that it is still a seller's market — at least for those sellers with a good, saleable business. Businesses with flat or no growth, or those with question marks hovering over their industry or market, have found that securring Private Equity buy-outs may be challenging.

While caution remains across the PE industry globally, fund managers everywhere are under tremendous pressure to deploy the vast amount of capital they've collected in the strong fundraising environment of the past few years. This, coupled with the increase in new PE funds and acquisitive trade buyers, has compelled PE firms to make trade-offs in order to secure assets with significant potential by paying elevated values, and accepting slightly lower intended returns than they would have taken five years ago, or holding on to an asset for a longer period to allow the desired earnings to come through.

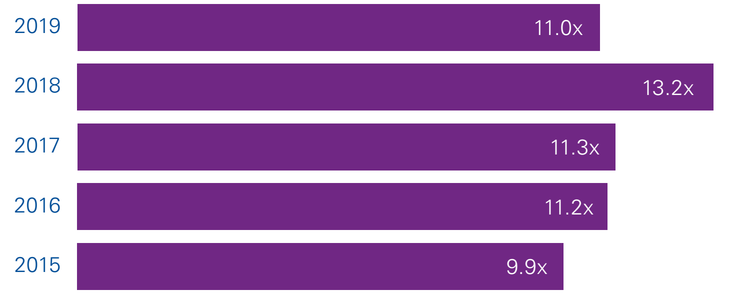
8.5x

All M&A EV/EBITDA multiples



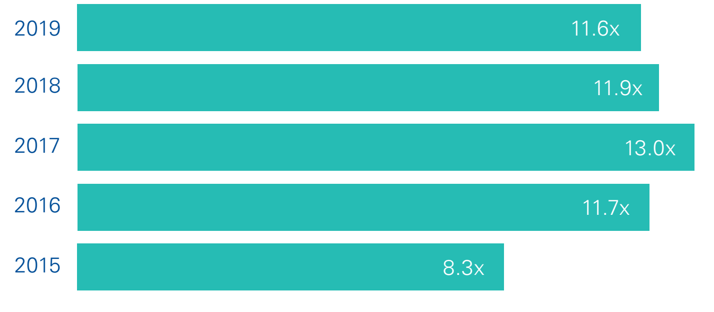
11.0x

All PE EV/EBITDA multiples



11.6x

All mid-market EV/EBITDA multiples



Source: *Pitchbook*

Mid-Market PE exits

"One of the factors driving declining mid-market PE deal volume is a sharp reduction in PE exits. There were 139 mid-market PE exits in 2019, down 34.1% from the prior year. Whilst we have seen deal volumes decline over recent half years, investors may have more clarity and certainty going into 2020 and as such we are more upbeat about volumes."

Mid-Market PE Exit values down
24.8%
to £10.4bn

Mid-Market PE Exits down
34.1%
to 139

Trade acquirers
53.6%
of all Exits

PE funds opted not to bring some assets to market in 2019, as it was arguably seen as a suboptimal year for exit returns.

Just as PE investment has declined, given the challenges described earlier, PE exit volumes, which are subject to the same factors, have declined year-on-year between 2019 and 2018. Full-year exits in the mid-market were down 34.1% overall year-over-year between 2018 and 2019, with sharp drops across all exit types.

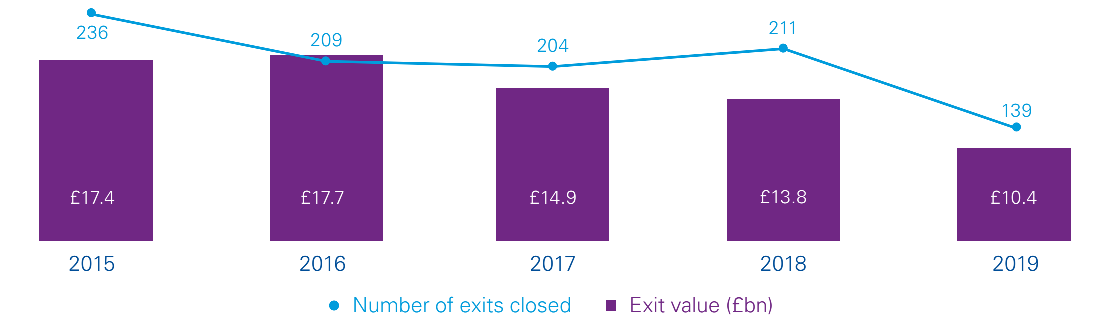
Secondary buy-outs underpin deal activity, with Private Equity investors often gain comfort in buying an asset from another institutional investor, Given is a proven management team, a good track record of growth, usually with some opportunity to undertake a buy and build strategy and importantly, a business that is well suited to PE ownership.

In terms of other Private Equity exits, we have seen that trade acquirers accounted for 53.6% of buyers of P.E assets. Of the 139 exits during 2019, 74 were sold to trade.

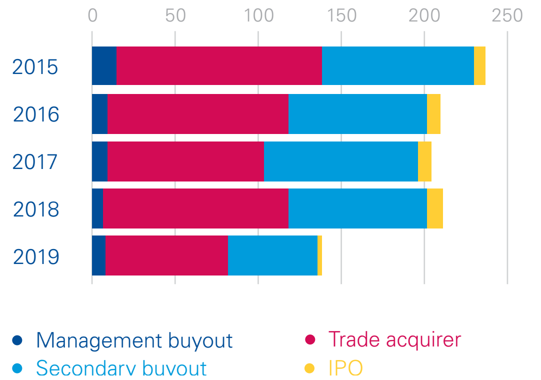
As anticipated, given the current macro environment, Initial Public Offerings remained low as a PE exit option in the mid-market. There were only four IPO's during 2019 in the mid-market, down 55.6% versus 2018 figures.

Moving into 2020, there is likely considerable pent-up demand among PE funds to exit investments that they've held onto for longer than usual, particularly if macro-economic and geopolitical issues subside. PE investors will be spending considering time evaluating which assets they can sell, to whom, and when.

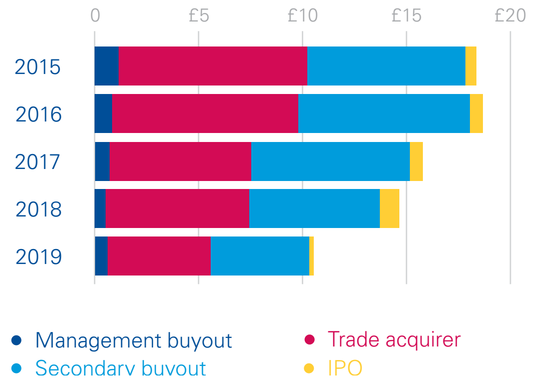
Full year mid-Market PE Exits by deal £bn value and volume



Full year mid-market UK PE Exit volume by Exit Type

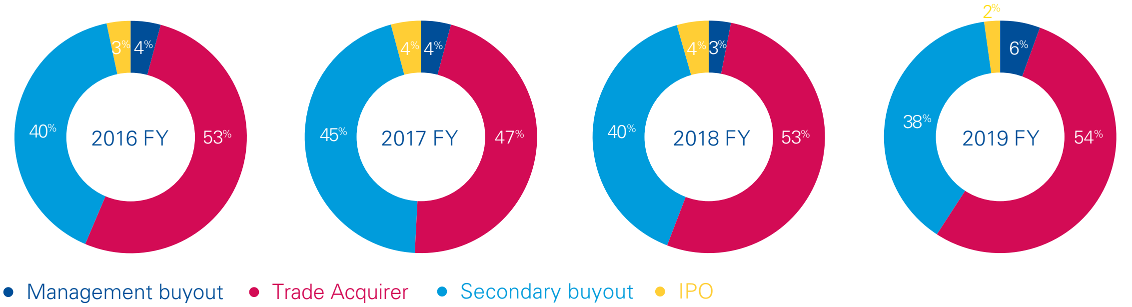


Full year mid-market Private Equity Exits by deal value (£bn)



	% YoY Volume Change		% YoY Value Change	
Exit type	FY 2018	FY 2019	FY 2018	FY 2019
Management buyout	-22.2%	**14.3%**	-28.1%	**20.0%**
Trade acquirer	16.8%	**-33.3%**	1.6%	**-28.7%**
Secondary buyout	-8.7%	**-36.9%**	-17.2%	**-24.5%**
IPO	12.5%	**-66.7%**	37.7%	**-78.4%**
Total	3.4%	**-34.1%**	-7.4%	**-28.2%**

UK mid-market PE deal volume % by Exit Type



Source: *Pitchbook*

PE trends to watch for

Jonathan Boyers
Partner - UK Head of
Corporate Finance

As we look ahead to 2020, we expect the business and investment community to breathe a sigh of relief. Brexit is finally happening, albeit there remains uncertainty beyond 31st January 2020, and we now have a majority Government with a mandate to set a clear direction of travel for the next 5 years.

We should expect to see this certainty manifest itself in a resurgence of PE-related activity across the UK, and not only in the mid-market. Companies of all sizes will likely feel more able to proceed with plans they have kept on hold for the past several years, creating opportunities for Private Equity investment.

The TMT and Energy sectors, along with perennial favourite Business Services, will undoubtedly drive much PE activity across the UK in the year to come. The appetite for technology-driven innovation and disruption will continue to fuel investment in TMT companies by UK and US, while the growing demand for renewable Energy should generate a great deal of interest in UK Energy companies.

There will continue to be abundant capital available to invest as well. Long-term stalwarts of the UK mid-market PE community may be moving up in terms of their deal size focus having raised larger funds, but the mid-market will remain well-served. Larger players are establishing enterprise funds; family offices are recruiting former PE fund managers to launch their own similar investment vehicles; and new players from the UK and elsewhere are rushing in to fill the gap as well. Well-run, resilient UK mid-market companies with significant potential for growth should have little trouble finding the capital they need to achieve their ambitions.

Methodology

Report scope covers period 1 January - 31 December 2019

Mid-market transaction classification to be defined as deals with an EV/deal value/consideration value of between £10m-£300m.

Transaction type classification to be defined as:

1. All mid-market primary PE deals (all types), including:
    a. Primary investment/buyout
        i. Minority stake (PB term: growth/expansion)
        ii. Majority stake
    b. Management buyout
    c. Management buy-in
    d. Bolt-on (PB term: Add-on)
    e. Corporate divestiture
    f. Public-to-private buyout
2. PE Exits
    a. Secondary buyout
    b. PE to IPO
    c. Trade buyer (PE term: strategic)
3. General M&A
    a. Strategic Acquirer, non-financial acquirers (e.g. Amazon, J.P. Morgan)
        i. Reverse merger
    b. Financial acquirer (i.e. PE firms)
    c. Mid-market classification to be defined as deals with an EV/deal value/consideration value of between £10m-£300m.
    d. Note: General M&A to be included for purposes of comparison (defined by mid-market and regions)

PitchBook mid-market methodology

Capital invested is defined as the total amount of equity and debt used in the Private Equity investment. PitchBook's total capital invested figures include deal amounts that were not collected by PitchBook but have been extrapolated using a multidimensional estimation matrix. Regardless of the extrapolated deal value, deals are subsequently distributed into deal size buckets, below $1 billion, based on the corresponding proportion of known deal sizes. Some datasets will include these extrapolated numbers while others will be compiled using only data collected directly by PitchBook; this explains any potential discrepancies.

PitchBook only tracks completed exits, not rumored or announced transactions. Exit value, like deal value, includes exit amounts that were not collected by PitchBook but have been extrapolated using a multidimensional estimation matrix. Regardless of the extrapolated exit value, exits of unknown size are subsequently distributed into deal size buckets, below $1 billion, based on the corresponding proportion of known deal sizes. Unless otherwise noted, initial public offering (IPO) sizes are based on the pre-money valuation of the company at the time of IPO. We exclude exits in which the only PE backing was a PIPE.

The report only includes PE funds that have held their final close. Unless otherwise noted, PE fund data includes buyout, diversified PE, mezzanine, mezzanine captive, growth and restructuring/turnaround funds. Fund location is determined by specific location tagged to the fund entity, not the investor headquarters.

A Leveraged Buyout/LBO can refer to the overall category of transactions in which an acquiring entity utilizes leverage in order to gain a controlling portion of a target entity. It also refers to the specific case of a buyout wherein the entity is a PE firm and it acquires a majority share of the target company and may or may not dispense with the existing management or buy them out as well, without the management actively partaking in the transaction and also acquiring a significant stake.

A Management Buyout however refers to that latter case, wherein the managers often go out and find a buyer for the company and also put in their own capital to help finance the transaction so they can take over ownership of the company. A Management Buyout/MBO is a financial investment that occurs when a Private Equity investor partners with the company's existing management to acquire a majority (>50%) of the equity in a corporation (the Target Company). In these transactions, the PE Firm and the management receive a combined majority (>50%) stake in the company. Management or PE firm can hold majority or minority stake.

NOTE: founders retaining a stake is not considered an MBO. "Partnership" with management is not considered an MBO unless there is other evidence that the management truly invested or re-invested in this transaction.

Key contacts

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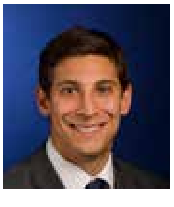

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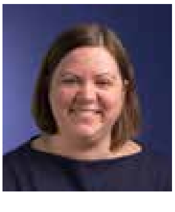

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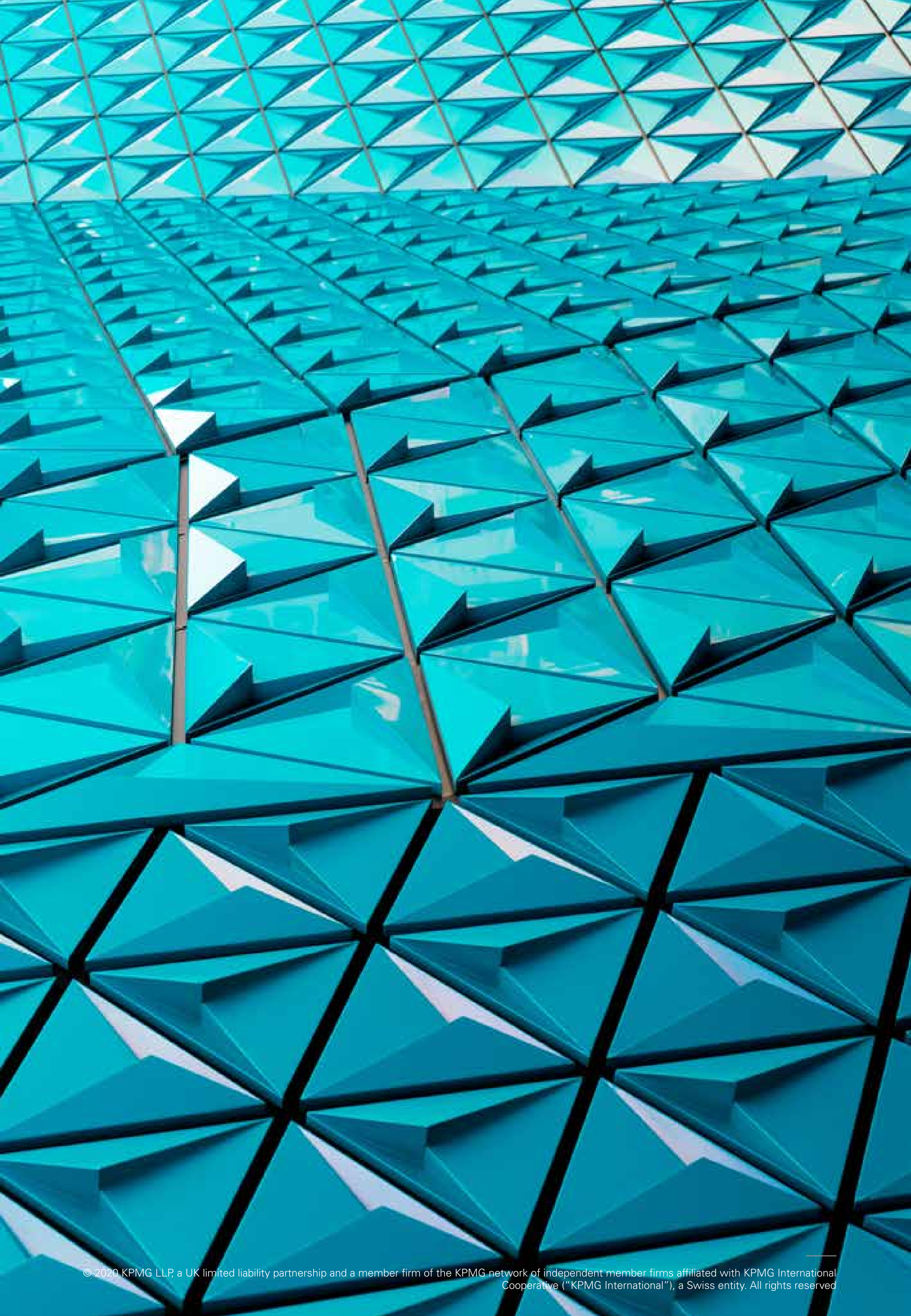
t. 0207 3113464
m. 07917 721651



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