UK Mid-market PE review

Our perspective on Private Equity activity during 2020

February 2021

kpmg.com/uk/midmarketPE

PitchBook

The landscape

Contents

All data provided by Pitchbook

2020 activity versus 2019

All PE activity

889 deals, down 26%

£87.2bn deal value, down 19%

Mid-market PE activity

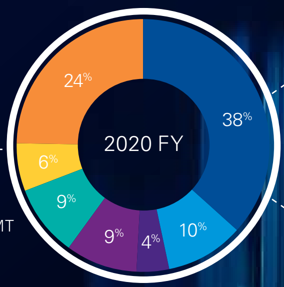
452 deals, down 33%

£28.5bn deal value, down 35%

PE exit activity

129 deals, down 13%

UK mid-market PE deal volume % by sector



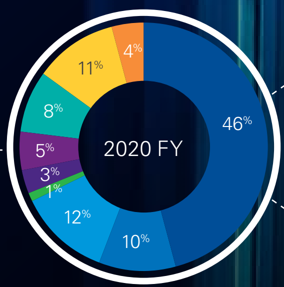
- Business services
- CG&R
- Energy
- Financial services
- Healthcare
- Industries
- TMT

Business services **169** deals, **38%** of all mid-market PE deals

TMT **107** deals, **24%** of all mid-market PE deals

Healthcare **41** deals, **9%** of all mid-market PE deals

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

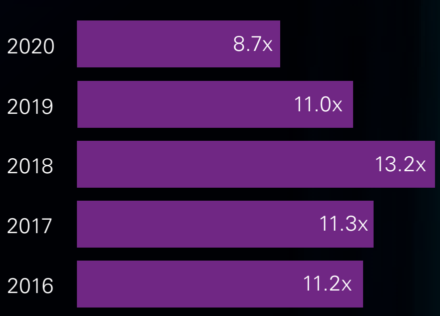
London **209** deals, **46%** of all mid-market PE deals

N. West **54** deals, **12%** of all mid-market PE deals

S. East **48** deals, **11%** of all mid-market PE deals

The landscape

All PE EV/EBITDA multiples



All mid-market* PE EV/EBITDA multiples

Period covered 1 January to 31 December 2020

Source: *Pitchbook*

** deals with an EV of £10-£300m*

Jonathan Boyers
Partner - UK Head of Corporate Finance

The overall deals market in 2020 was a story of two halves. After a strong start in Q1, the first half of the year saw a significant slowdown in transaction activity after the first lockdown came into effect and the economy came to a near standstill.

The UK was not alone in facing these challenges, but it was hit harder than many international counterparts, suffering a 20.4% reduction in GDP in Q2 and a 9.7% decline in Q3, double that of the US and EU.

The second six months, however, was one of recovery. Once restrictions started to ease over the summer, the market bounced back during the second six months, albeit at a lower level than previous years.

Ironically, COVID-19 was the main catalyst behind both the collapse in the spring and the recovery in the autumn. Although it clearly had a large adverse impact on the number of deals coming through, the pandemic focused minds on the here-and-now. Once the initial shock of lockdown had worn off, and after a number of years of hesitancy caused by issues such as Brexit, elections and international uncertainty, there was a new-found urgency to get deals done. At the same time, the crisis sharpened the focus of corporates on building resilience and efficiency by divesting non-core assets. Concerns over forthcoming changes to the CGT regime are also likely to have contributed to a spike in deal completions in H2, with both Q3 and Q4 seeing well over 200 transactions, up from just 137 in Q2.

Many trade acquirers and private equity (PE) groups refocused their acquisition strategies on businesses that had shown themselves to be resilient throughout 2020, or that could benefit from strategic realignment.

This is evident in terms of sectors, with those sectors that fared the best during lockdown and the ensuing restrictions, such as TMT, business services and healthcare, accounting for the lion's share of deals and the highest multiples.

Deal valuation multiples stayed largely unchanged in the overall PE market, at 8.7x EBITDA compared to 8.5x in 2019. In the mid-market, however, multiples fell from 11.6x EBITDA in 2019 to 10.7x in 2020. We saw a significant range in valuations reflected in our deals, particularly in Q2 and Q3, with multiples ranging from single figures to above 20x EBITDA, a trend that we expect to continue into the new year.

We look further at the key trends shaping UK mid-market PE investment in this report. These include:

- The impact of the pandemic on PE transactions
- The flight to quality in key sectors
- The strength of the business services, TMT, and healthcare sectors
- The continued popularity of bolt-on transactions
- London's dominance of mid-market PE deal flows

Our perspective

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

The PE market in 2020 could be summed up in two words: 'retreat' and 'recovery'. The overall volume of PE deals was 26% down on 2019 and the value of deals 19% lower. At first glance, these are worrying statistics, but most of the damage occurred in Q2, when the world – not only the PE market – was still reeling from the implications of the pandemic and lockdown.

This was reflected in PE activity. After a stronger than normal start to the year with 309 deals – the highest Q1 volume since 2017 - deal levels plummeted in Q2 as vendors and purchasers retreated from the market, protected their businesses and reviewed their portfolios.

The high level of activity in Q1 2020 was partly driven by the 'Boris bounce' of the Tory victory in the December 2019 general election, a reduced number of exits in 2019 as vendors waited to see the outcome of Brexit – which was originally planned for 2019, and pent up reserves of PE investment capital.

The ensuing drop-off in Q2 was dramatic but temporary – surprisingly so, as we saw deal volume come back in Q3 and more so in Q4. Some sectors, such as high street retail, hospitality and leisure, aviation, and automotive, took a significant hit, but others were relatively unscathed or even, in the case of online retail, tech, and telecoms for example, boosted by lockdown.

As PE houses reviewed their portfolios and came to the realisation that things were not as bad as initially expected, as strong businesses in healthy sectors demonstrated their resilience, activity levels started to recover. We saw PE place an increased focus on ensuring their management teams were performing to their best ability and value creation plans were also re-examined, prioritising those levers which would reduce cost, manage cash and improve profitability.

It was partly down to returning confidence, but also a sign of acceptance and determination that deals could still be done in this new virtual environment. Face-to-face meetings were harder to justify, but digital communication showed itself more than capable of filling the gap – a trend that is likely to stay.

Looking ahead, valuations are holding up, as are multiples, the debt markets are open again, and PE houses are still sitting on significant levels of dry powder, so the fundamentals are strong. Brexit transpired with the basis of a deal and the end is hopefully in sight for the pandemic. As these uncertainties dissipate, it is likely deal volumes will continue to remain strong in 2021.

Total UK PE activity

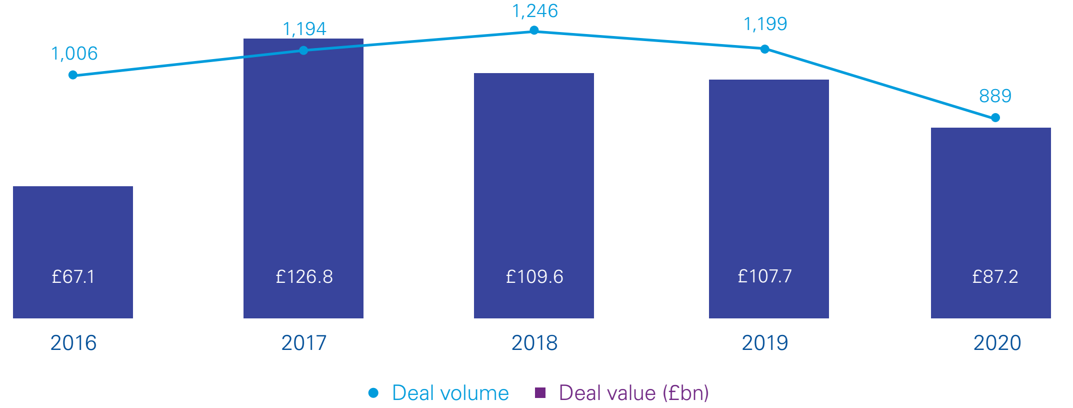
"In many respects 2020 got off to a strong start. Boris Johnson's general election victory in December 2019 promised to end four years of Brexit uncertainty once and for all, while changes to Entrepreneur's Relief meant more business owners were looking for exits."

After a robust 2019, full-year figures for 2020 reveal the full extent to which private equity deal making was impacted by the onset of the COVID-19 pandemic. At 889 deals, overall deal volumes were down 26% on 2019, while aggregate deal values of £87.2 billion were down 19%, the lowest levels since 2014.

In many respects, however, 2020 got off to a strong start. Boris Johnson's general election victory in December 2019 promised to end four years of Brexit uncertainty once and for all, while changes to Entrepreneur's Relief meant more business owners were looking for exits. The result was 309 transactions and close to £35 billion in deal value in Q1. The strong deal flow seen in Q1 buoyed H1 figures despite the significant drop in values seen in Q2. In terms of aggregate deal values, this was the strongest start to the year since 2016, while in terms of volume, only Q1 2017 was higher.

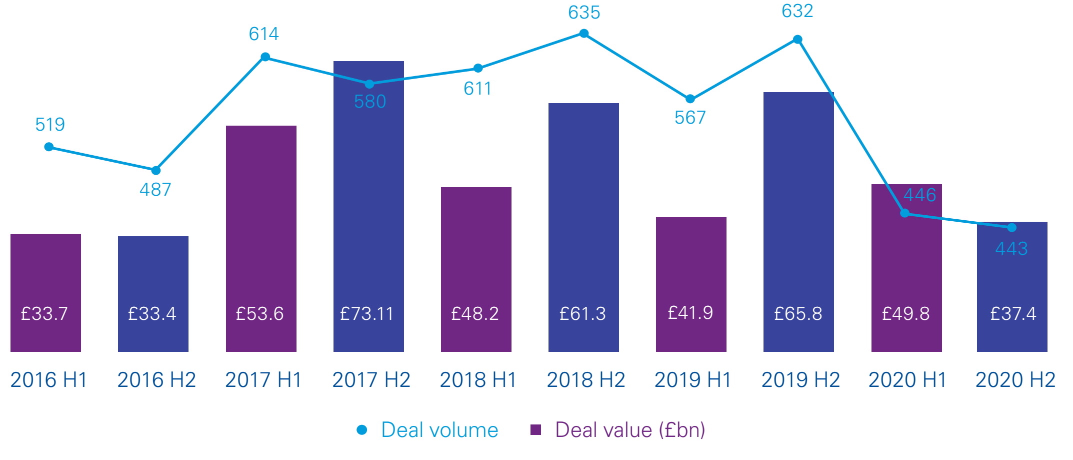
The imposition of lockdown and the ensuing restrictions in Q2, however, brought transaction levels plummeting. Deal volumes and values fell to 137 deals, compared to 309 in Q1 with an aggregate value of £15.3 billion, as businesses raced to adapt to the economic fall-out of the pandemic and the logistical hurdles introduced by government policy responses.

Annual UK PE deal volumes and values (£bn)



	% YoY Volume Change		% YoY Value Change	
	FY 2019	FY 2020	FY 2019	FY 2020
Total UK PE activity FY	-3.8%	**-25.9%**	-1.7%	**-19.0%**

Half year UK PE deal volumes (inc. minority)



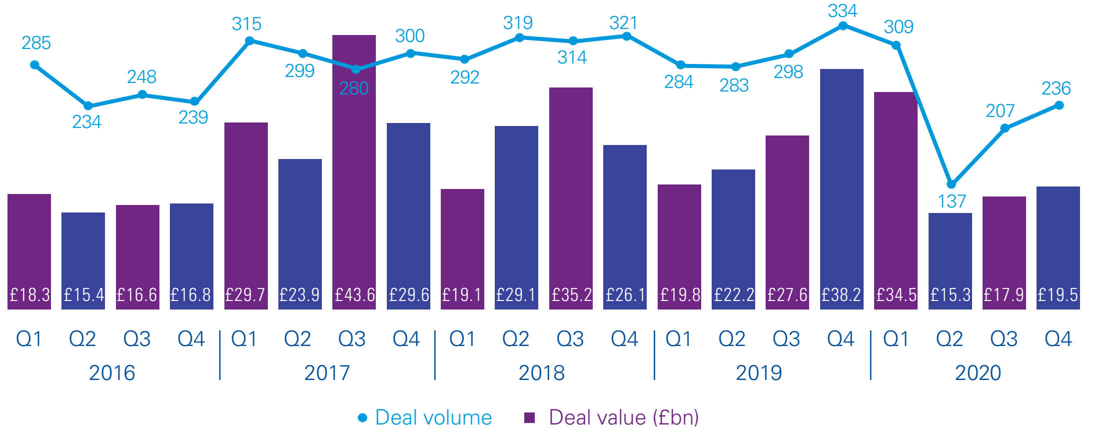
	% Volume Change			% Value Change		
	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
Total UK PE activity HY	-21.3%	-29.9%	**-0.7%**	18.9%	-43.2%	**-25.0%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

By Q3 and Q4, as the country began to open up, the picture changed again. Deals that had been put on hold sprung back to life and PE investors, still sitting on substantial reserves of capital to invest, started to look to the future.

This contributed to a recovery in transactions, with each quarter registering 200+ deals and around £37.4 billion aggregate deal value, compared to volume in Q3 and Q4 2019 which saw circa 300+ deals per quarter.

Total UK PE Quarterly Deal volume and value (£bn)



	% YoY change Q1 v Q1	% YoY change Q2 v Q2	% YoY change Q3 v Q3	% YoY change Q4 v Q4	% QoQ change Q2 v Q1	% QoQ change Q3 v Q2	% QoQ change Q4 v Q3
% Value Change	74.9%	-30.9%	-35.1%	-49.0%	-55.7%	17.2%	8.5%
% Volume Change	8.8%	-51.6%	-30.5%	-29.3%	-55.7%	51.1%	14.0%

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

UK mid-market PE activity

£28.5bn
deal value, down
35%

452
deals, down
33%

Mid-market PE
51%
of all PE deals

"After two very strong years for mid-market deals, it seems that even before the pandemic, transactions were beginning to plateau."

Mid-market PE deals appear to have been harder hit by the unprecedented challenges of 2020 than the PE market as a whole. There was a 35% decline in deal values on 2019, to £28.45 billion, and a 33% decline in deal volumes, with 452 transactions completing. These figures are the lowest since 2014.

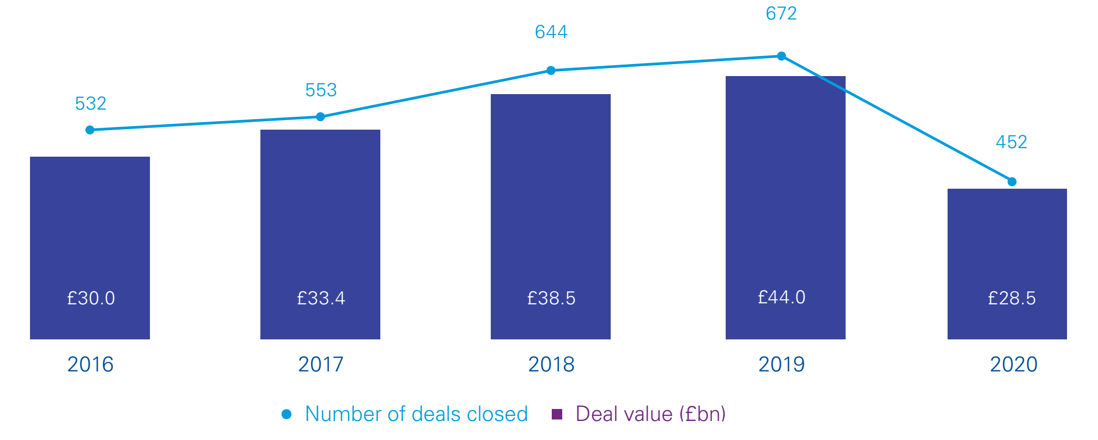
In contrast to the strong start to the year of the overall PE market, activity in the mid-market was less robust. Even in Q1, deal volumes were down on the preceding two quarters at 162 deals, and deal values at £8.7 billion were the lowest since spring 2018. After two very strong years for mid-market deals, it seems that even before the pandemic, transactions were beginning to plateau.

Unsurprisingly, that plateau became a cliff-edge in Q2 when lockdown came into force. Deal volumes plummeted by 53% on Q1 and deal values by 54%, as vendors and buyers froze in the headlights of the pandemic.

Almost as quickly, however, people adapted to the new situation. Valuations held up relatively well for businesses in all but the most severely affected sectors; there was still plenty of investment capital available; and dealmakers realised deals could still be done, albeit virtually.

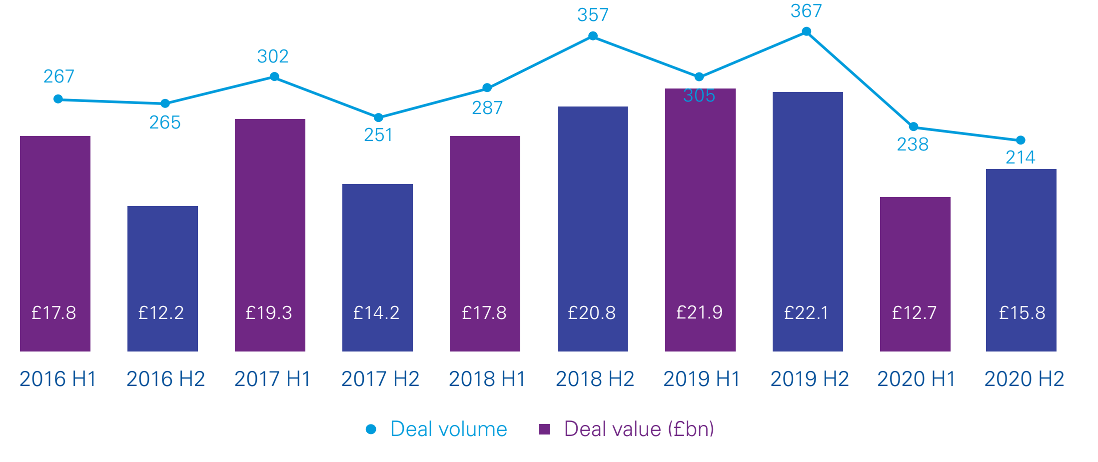
The result was a second-half recovery that saw 99 deals completed in Q3 2020, up 30% on Q2, at a value of £6.7 billion, up 68% on Q2. This was followed by 115 deals in Q4 at a value of £9.0 billion. The fact that aggregate deal values increased more than volumes suggests it was the stronger businesses with demonstrable resilience that proved more attractive to PE buyers.

Annual UK mid-market PE deal volumes and values



	% YoY Volume Change		% YoY Value Change	
	FY 2019	FY 2020	FY 2019	FY 2020
Total UK mid-market PE activity FY	4.3%	**-32.7%**	-35.3%	**14.2%**

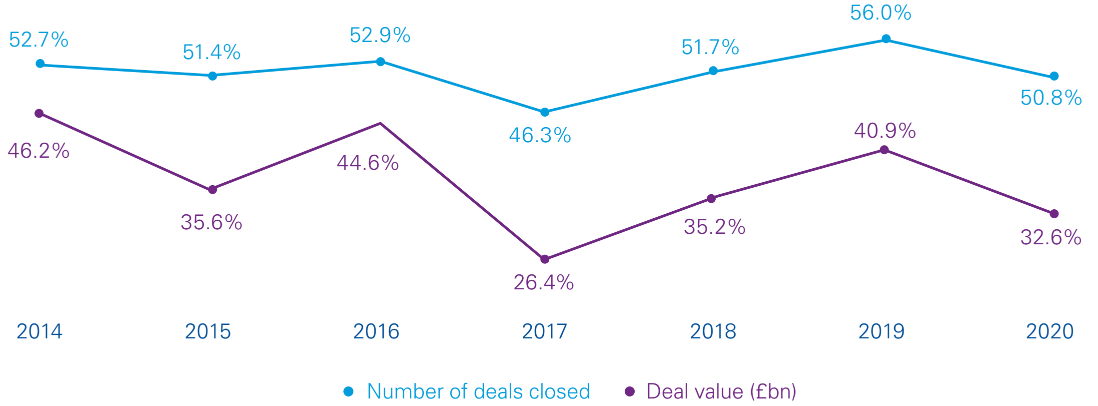
Half year UK mid-market PE deal volumes and value £bn



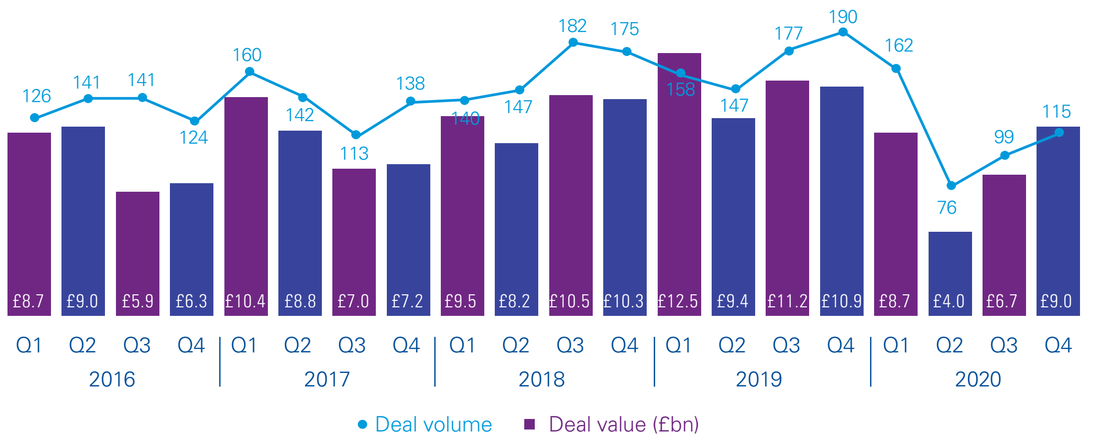
	% Volume Change			% Value Change		
	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
Total UK mid-market PE activity HY	-22.0%	-41.7%	**-10.1%**	-42.1%	-28.7%	**24.0%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

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



Quarterly UK mid-market PE Deal volumes and value (£bn)



	% YoY change Q1 v Q1	% YoY change Q2 v Q2	% YoY change Q3 v Q3	% YoY change Q4 v Q4	% QoQ change Q2 v Q1	% QoQ change Q3 v Q2	% QoQ change Q4 v Q3
% Value Change	-30.3%	-57.6%	-39.8%	-17.2%	-54.0%	68.5%	33.6%
% Volume Change	2.5%	-48.3%	-44.1%	-39.5%	-53.1%	30.3%	16.2%

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Debt capital perspective

Peter Bate
Director - Debt Advisory

"The market has generally followed the phasing of the pandemic, with lenders having strong first quarters, weak second quarters as they came to terms with their portfolios, and then a recovery of deal flow and deal appetite in Q3 and Q4".

At the end of 2019, Wuhan and COVID-19 seemed a long way from Europe and there appeared to be more positive dynamics that would affect the year, not least the abundance of capital, the opportunities for private debt and the shadow of Brexit.

What the pandemic has proved is the robustness of the capital markets, their continued support for private equity and the position of strength that credit funds have established. If there was ever any question, the pandemic has shown that credit funds are here to stay.

The market has generally followed the phasing of the pandemic, with lenders having strong first quarters, weak second quarters as they came to terms with their portfolios, and then a recovery of deal flow and deal appetite in Q3 and Q4. In Q2, there was talk of a flight to quality and to defensive sectors and an improvement in margin, leverage and terms and conditions in favour of lenders. In many deals, the sheer weight of capital has meant that terms are pretty much at (or better than) pre-COVID19 levels. What we have seen is the importance of very robust processes where diligence work has been front-end loaded so that bidders and lenders were able to go to credit with the most conviction.

Reasons to be cheerful

Deal volumes - Some of the deals that did not happen will likely come to fruition in 2021. Other deal processes could accelerate because the businesses have proved to be resilient or in sectors that liquidity is pointing towards.

T&Cs normalised - The first reaction that lenders had during the pandemic was that pricing would increase, leverage would go down and terms and conditions would improve for lenders. However, we have seen deals at or better than pre-COVID-19 levels because of supply and demand imbalance.

Fund dry powder - For both PE and credit funds, there is still substantial cash to invest. Preqin data shows that over the past four years, over 300 direct lending funds have deployed roughly $200 billion globally, while their available capital still stands at $100 billion plus. The situation is the same for private equity funds.

Ability to fund ever larger transactions - There is now very little limitation on the amount that private debt will lend. European direct lenders can now provide large unitranches, where deals at over £1 billion with a club of lenders can now be funded, even of up to €1 billion or higher.

Reasons for caution

Aggressiveness in transactions - COVID-19 has impacted sectors in different ways. Some were already struggling, such as traditional bricks and mortar retail, automotive, and leisure. Others have been less impacted, or even thrived, include healthcare, technology, and financial services. This may translate into an imbalance in supply and demand This, in turn, could create a situation where lenders and sponsors are focusing on the same deals, which may lead to more aggressive terms with looser documentation and lower margins or improved terms for borrowers.

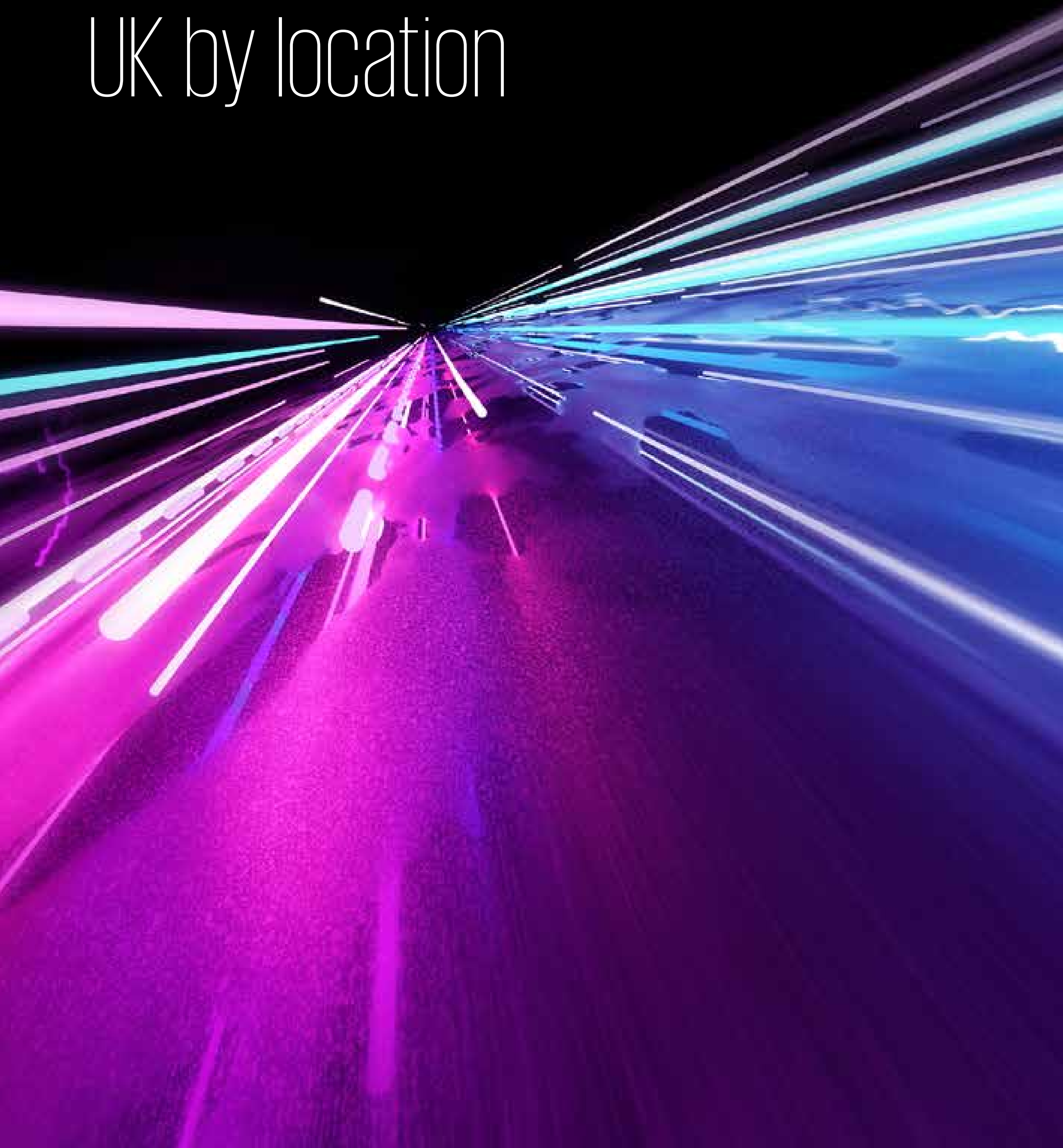
Adjustments - As the pandemic materially impacted EBITDA for many businesses, this led to creative EBITDA adjustments to compensate. With competition to win deals high, the appetite to push back on adjusted EBITDA numbers is consequently reduced, potentially leading to companies taking on more leverage than their business model can sustain.

Brexit - Whilst we have managed to leave the EU with the basis of a deal, there remains a way to go and bidders and lenders still need to be comfortable with performance in the new European environment.

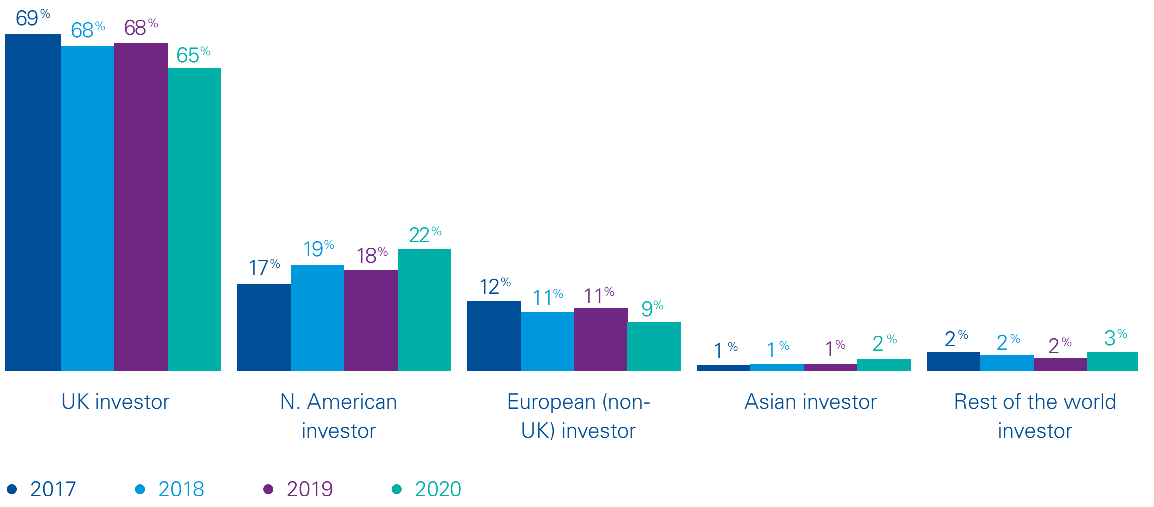
How long will this take? The timeline for how long the pandemic might last and how long the vaccination programme takes to roll out and ultimately what scars will remain post pandemic is uncertain. Markets will be buoyed by vaccine roll-outs, but it is likely that some difficulties in the market may emerge later in the year as liquidity lines and government support tails off.

Only in time will it become clearer how the pandemic has impacted sectors and how they will emerge as we come out the other side. During 2021, we will see how many of the changes in behaviours have stuck or how much will revert to pre-COVID times. The increased clarity around the permanence of these behaviour changes will benefit lenders and investors alike and will provide confidence to support the future of businesses directly impacted. What is clear is a need to present businesses and processes well to access the capital that is available but will be selective in its application.

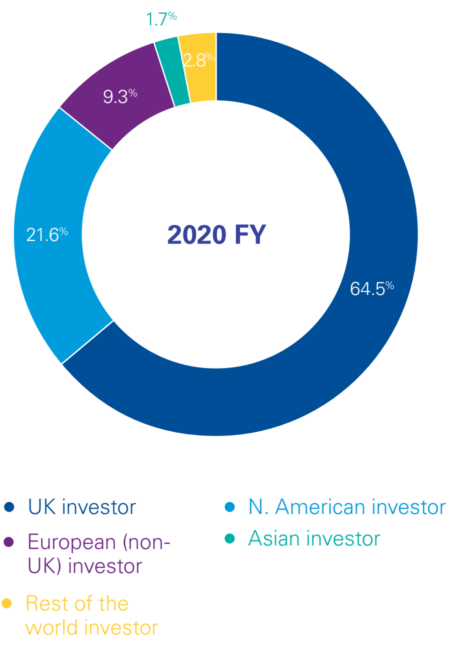
PE Investors into UK by location



% split of UK M&A deal volume by investor geography



"North American PE firms increased their share of UK investment in 2020, accounting for more than 20% of deals for the first time in the past four years".



Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Even in a year defined by the pandemic, cross-border deal-making remained more active than may have been expected given the broader context of global lockdowns, Brexit and political uncertainty in certain markets, particularly the US. The proportion of UK M&A with domestic investment firms fell slightly to just below two-thirds.

North American PE firms increased their share of UK investment in 2020, accounting for more than 20% of deals for the first time in the past four years. It was a similar story for Asian and rest-of-world investors, which both saw an increased level of activity in the UK. Granted, these increases come against a background of a decrease in overall UK M&A in 2020, but the resilience is worth noting.

It is also interesting to see that investment from European (non-UK) sources fell to its lowest level since 2017. This may suggest that those investors more likely to be affected by Brexit, or at least more exposed to the political debate around the issue, were less likely to invest in the UK than those more removed from the fray.

So far in 2021 there has not been a dramatic change in many sectors caused by Brexit, and those sectors that were most likely to be affected have had plenty of time to draw up strategies to mitigate the risks. There is a general sense that any friction around borders and paperwork is temporary and unlikely to have any long-term impact.

Sectors

TMT mid-market PE activity FY 2020

TMT deal values
£2.4bn

TMT volumes down
27%
and account for
24%
of all mid-market PE volume

TMT deal volumes
107

Business services PE activity FY 2020

Business services deal values
£8.9bn

Business services volumes down
36%
and account for
38%
of all mid-market PE volume

Business services deal volumes
169

> "The switch to virtual and remote working turbocharged the growth of M&A in the TMT sector. Even five years ago, TMT accounted for only around 12% of mid-market PE deals. In 2020 it accounted for almost one-quarter."

All sectors saw a significant decrease in the number of deals completed in 2020, in line with the overall decline in mid-market PE deal activity.

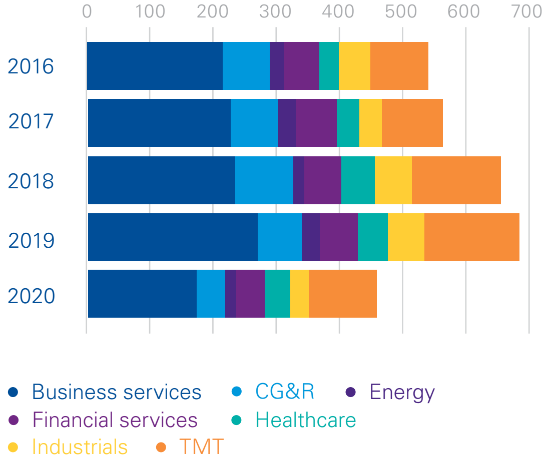
Industrials was by some margin the biggest faller, with 54% fewer deals than in 2019. This is most attributable to the short-term effects of the pandemic on operations and, consequently, business revenues, plus lingering concern over the possibility of a 'hard' Brexit and the potential impact on distribution channels and supply chains.

Energy and Business Services saw the next largest declines, at 38% and 36% respectively, after both sectors had seen record levels of deal activity in 2019. Consumer goods fell by a similar amount, recording a 34% reduction in deals.

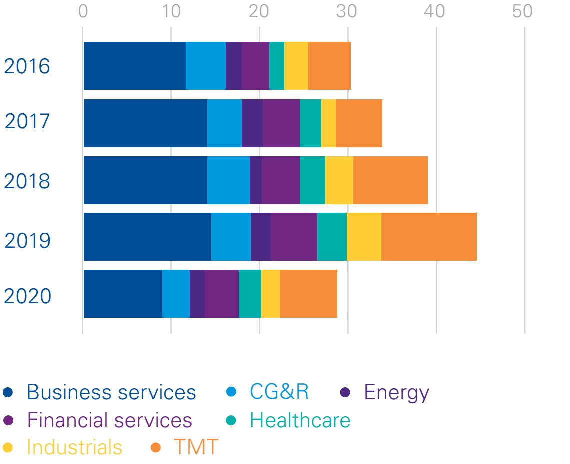
Nevertheless, the split between the proportion of deals in each sector remained broadly in line with 2019. Business Services was still the most popular sector for UK mid-market PE deals, with 169 deals in 2020, or 38%, a similar level to last year. TMT accounted for the second highest number of deals with 107, or 24%, marginally up on last year, followed by Financial Services (43 deals) and Consumer Goods (45 deals), both accounting for 10% of total deal volumes.

The differing impact of the pandemic on different business sectors is evident in these figures. The switch to virtual and remote working, for example, turbocharged the growth of M&A in the TMT sector. Even five years ago, TMT accounted for only around 12% of mid-market PE deals. In 2020 it accounted for almost one-quarter. The shift to digitisation was only intensified by the pandemic, which increased the allure of the TMT and e-commerce space to investors.

Full year UK mid-market PE deal volumes by sector



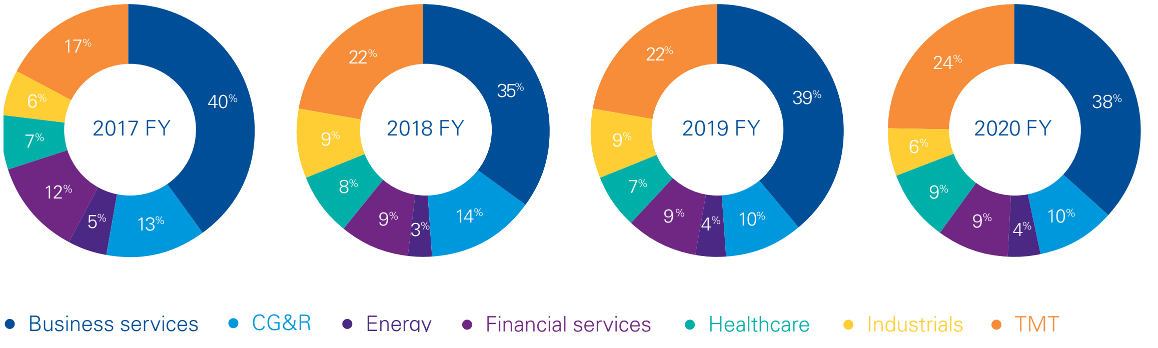
Full year UK mid-market PE deal values £bn by sector



Annual % change deal volume and value by sector

Sector	% YoY Volume Change FY 2019	% YoY Volume Change FY 2020	% YoY Value Change FY 2019	% YoY Value Change FY 2020
Business services	15.7%	**-36.2%**	4.0%	**-38.3%**
CG&R	-24.4%	**-33.8%**	-8.9%	**-30.5%**
Energy	61.1%	**-37.9%**	78.9%	**-29.1%**
Financial services	1.7%	**-27.1%**	18.3%	**-24.8%**
Healthcare	-13.2%	**-10.9%**	15.1%	**-23.3%**
Industrials	5.4%	**-54.2%**	21.4%	**-44.4%**
TMT	4.3%	**-27.2%**	29.2%	**-40.3%**

UK mid-market PE deal volume % by sector

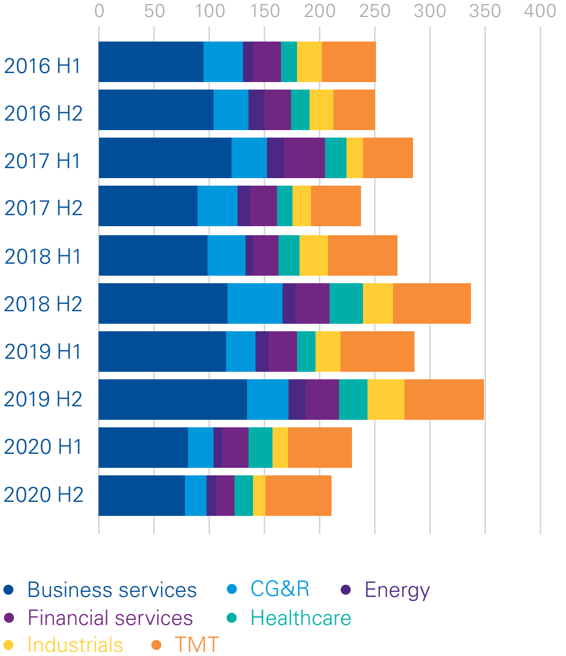


Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

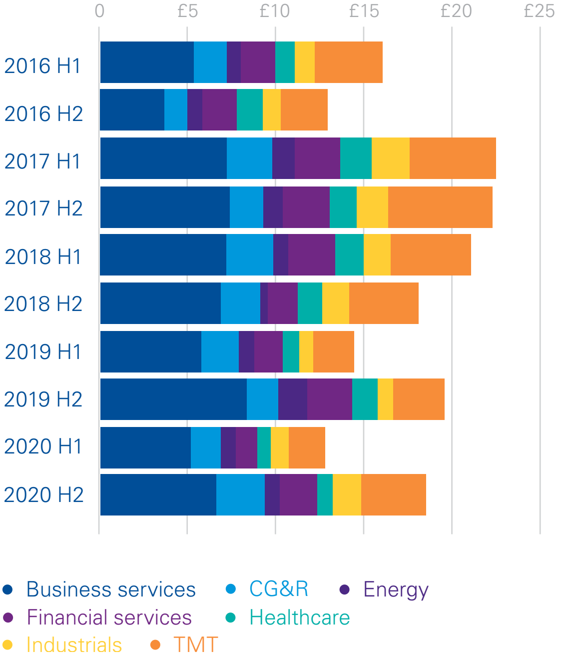
Healthcare remained steady in terms of deal volumes, increasing from 7% to 9% of total deals. This is testament not only to the long-term socio-economic fundamentals that underpin the attractiveness of the sector to investors, but also the opportunities within the sector underlined by the pandemic.

Deal values by sector showed little movement on 2019, with no sector registering more than a 2% change in its proportion of deal values. Business Services remained the highest at 31%, significantly lower than 2017's bumper 42%, but similar to its average historic levels. TMT accounted for the next largest share of values, at 22%, while Financial Services, up 2% to 14%, showed the biggest increase.

UK half year mid-market deal volumes by sector



UK half year mid-market deal values £bn by sector



% change deal volume and value by sector

	% Volume Change			% Value Change		
Sector	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
Business services	-29.5%	-42.0%	**-3.5%**	-50.2%	-26.0%	**44.0%**
CG&R	-17.2%	-46.2%	**-12.5%**	-33.5%	-28.3%	**48.7%**
Energy	-25.0%	-47.1%	**0.0%**	-20.5%	-36.4%	**-6.8%**
Financial services	-7.4%	-43.8%	**-28.0%**	-26.1%	-23.6%	**0.3%**
Healthcare	33.3%	-39.3%	**-29.2%**	-3.6%	-39.8%	**-25.6%**
Industrials	-37.5%	-65.7%	**-20.0%**	-43.2%	-45.4%	**14.3%**
TMT	-25.4%	-28.9%	**1.9%**	-55.4%	-22.0%	**43.8%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Sector perspective: Technology - a focus on software

Graham Pearce
Partner, Head of TMT, Corporate Finance

"Software companies have always exhibited some of the characteristics favoured by PE investors – positive macro growth drivers (even more so following COVID), strong revenue visibility underpinned by multi-year contracts, and high margins".

2020 was a year of immense change. The unprecedented disruption caused by COVID-19 resulted in a sudden and rapid change in the way people interacted and the way businesses operated. In particular, it highlighted the importance of digital technologies in keeping the world running smoothly. Software companies such as Zoom Video Communications, the provider of IP-based video calling software, saw their share prices quadruple compared to the start of the year as millions of people shifted to working from home.

The M&A market for software and technology businesses has remained relatively robust despite the economic downturn. KPMG's Corporate Finance team advised on 16 tech deals in 2020, including eight transactions in November to PE and trade acquirers who sought to enhance their exposure to this increasingly critical sector.

Software companies have always exhibited some of the key characteristics favoured by PE investors – positive macro growth drivers (even more so following COVID), strong revenue visibility underpinned by multi-year contracts, and high margins. The SaaS (software-as-a-service) model is increasingly popular as it combines scalability, the ability to drive growth through upsell to existing customers, and operational leverage in a way unmatched by most other sectors.

Increasingly, US-based PE firms are looking to the UK for acquisition opportunities and are willing to pay high multiples for attractive assets. For example, Thoma Bravo's acquisition of Sophos for $3.9bn at a close to 50x EBITDA multiple.

Trade acquirers (often PE-backed themselves) have also been active. For example, Advanced's (backed by Vista and BC Partners) acquisition of Tikit and Access Group's (backed by HgCapital and TA Associates) acquisition of Eclipse Legal Systems.

Demand for quality tech and software assets is arguably as high as it has ever been. UK mid-market PE firms will need to be nimble and bold to stay competitive.

Sector perspective: Financial services - a focus on insurance and wealth management

Mark Flenner
Partner, Co-Head of
Global Financial Services,
Corporate Finance

"Demand has remained particularly strong for insurance distribution and wealth and asset management deals due to a number of factors, such as high levels of recurring revenue; strong cash flow generation; a deliverable buy-and-build strategy; tangible short term synergy extraction and proven exit routes."

Financial Services continues to be one of the most active sectors for private equity investments. The relative out performance of financial services illustrates the resilience of the sector and appeal of financial services companies during a period of economic and social uncertainty.

We advised on deals across a wide range of sub-sectors during 2020. In particular, we saw significant demand for deals in the insurance broking and wealth and asset management sub-sectors.

Insurance

M&A processes for insurance distribution are typically very competitive, particularly involving private equity investors, and there are a multitude of factors why such an investment is attractive for the private equity investor. Firstly, insurance is resilient during economic uncertainty. The importance of having necessary insurance coverage in place, for both personal and commercial lines, has become even more apparent during the current pandemic. Resilience during economic uncertainty, combined with the recurring nature of revenue provides assurance to a prospective investor over future earnings and cash flow - both of which enable accurate modelling of returns and debt servicing capability. Against this backdrop, the debt markets for insurance deals remained open during 2020 and private equity were able to continue to access funding (e.g. Quintes and Chill Insurance both achieved strong leverage multiples during 2020).

A further factor which continues to drive interest and competitive processes within insurance distribution is the high quality of earnings, and often limited significant adjustments. This helps to increase confidence in forecasts and allows private equity to focus on value creation via cost reductions and revenue enhancement opportunities for the PE backed consolidators. Both cost and revenue synergies in insurance distribution deals are often easily identifiable and quantifiable e.g. consolidating insurance carrier relationships and leveraging potential commission uplifts; cross-selling opportunities; and the removal of duplicate back office functions. It is widely understood that the current underlying market dynamics in the insurance market are also improving and, as a result, directly improving the earnings potential of insurance brokers.

During 2020, in the insurance distribution sub-sector, there has been a mix of established PE-backed consolidators continuing to add scale and seek new product lines (e.g. Aston Lark's acquisition of Brunel Professions), private equity firms looking to diversify their holdings by investing in insurance assets in continental Europe (e.g. Aquiline's acquisition of Quintes in the Netherlands) and successful exits by private equity to trade or secondary / tertiary buy-outs (e.g. Dunedin's sale of Kingsbridge to NSM Insurance Group and Inflexion's exit of Bollington Wilson to AJ Gallagher).

Wealth and asset management

Similarly insurance distribution, wealth and asset management private equity deals continued throughout 2020.

This was underpinned by an increased awareness of the need for independent financial advice as volatility in the capital markets caused significant price movements within pension and ISA portfolios.

There are also a number of tailwinds in the wealth management market which signal likely and continued consolidation, as well as private equity activity, including: the highly fragmented nature of the market; an increased regulatory burden for smaller firms; pensions reforms and the requirement for advice; and the long term demographic shift towards an ageing population. New and established consolidators are also able to achieve significant cost synergies by onboarding newly acquired entities to now well-established IT platforms so benefiting from material synergy benefit uplift. There is also the potential for significant multiple arbitrage by acquiring later stage or retiring IFAs, as well as exploring whether or not to integrate a discretionary fund manager as part of their offering to enhance earnings potential.

Trust and fund administration remain areas of increasing focus and numerous investors have entered the market to implement buy-and-build strategies with the goal of increasing scale; widening geographical coverage; and diversifying their offerings. The regulatory pressure causing asset managers to use outsourced providers for their fund administration, as well as increased automation from technological improvements, provides the growth story for private equity to invest in trust and fund administration companies.

Significant private equity deals in wealth management completed during 2020 include: CBPE's acquisition of Perspective; Carlyle's public to private takeover of Harwood; and Apiary Capital's acquisition of Radiant, as well as continued activity by private equity backed consolidators such as Fairstone and Ascot Lloyd. Notable deals in the trust and fund administration sub-sector include Virtuvian's investment in Carne and ECI's investment in KB Associates. At the time of writing this report, there are a number of active wealth and asset management processes which signals likely continued activity during 2021.

Insurance and wealth and asset management companies are attractive to private equity because of the proven exit options. Mid-market private equity firms can be relatively assured, if implemented correctly, their buy-and-build or growth strategies will mean that there are a number of highly credible options at exit. There has typically been significant interest from large cap private equity, or transatlantic funds as well as acquisitive trade players. Significant interest at exit has helped private equity achieve strong exit multiples and returns in these sectors, and we expect to see continued interest from private equity in financial services throughout 2021 and beyond.

Regions

London deal volumes down 27%, to 209.

46%

of all mid-market PE deals

N. West deal volumes down 41%, to 54.

12%

of all mid-market PE deals

S. East deal volumes, down 30%, to 48.

11%

of all mid-market PE deals

"In terms of deal volumes, London again led the way, with 46% of all deals, up from 42% in 2019. This likely reflects the strength of the capital's deal-making community, as well as the concentration of businesses in those sectors affected least by the pandemic, such as TMT and Business Services."

After two very strong years for deal activity in every region, 2020 brought the regional deals market back to earth.

Analysing full-year activity, London accounted for the largest proportion of aggregate deal value in the UK mid-market, at nearly £13 billion. This was 27% down on 2019 London deal values and the lowest figure in the past six years.

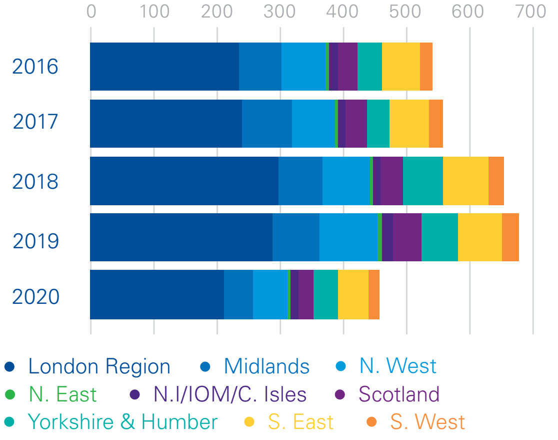
Nevertheless, London's share of deal values actually increased from 41% in 2019 to 45% in 2020. The next strongest regions, as in previous years, were the North West, Midlands and South East. All suffered declines of over 30% in deal values, but their share of overall deal values remained relatively steady.

In terms of deal volumes, London again led the way, with 46% of all deals, up from 42% in 2019. This likely reflects the strength of the capital's deal-making community, as well as the concentration of businesses in those sectors affected least by the pandemic, such as TMT and Business Services. The only other region to show an increase in its proportion of deal activity was the South East, which saw a 1% increase in deal volumes.

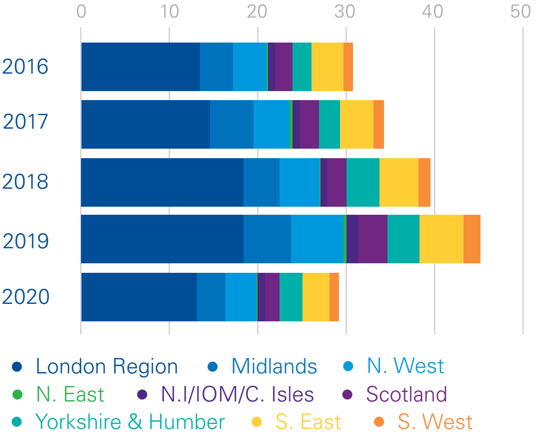
The 41% decline in North West deal volumes, from 91 deals in 2019 to 54 in 2020, is more surprising. The North West is home to 25 private equity houses, more than any other UK region except London, and has a very mature PE community, so it may have been expected to be more resilient, but ultimately investment activity is due to the lack of supply despite the demand.

The fall-off in Scotland and the Midlands is more understandable, given the strength of the hard-hit Industrial sector in these regions.

Full year mid-market PE volumes by region



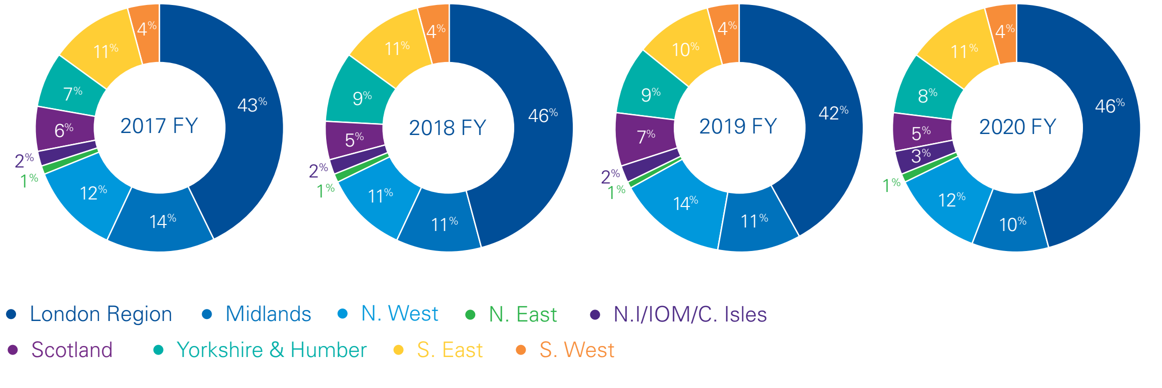
Full year mid-market Private Equity deal values by UK Region



% Change deal volume and value by region

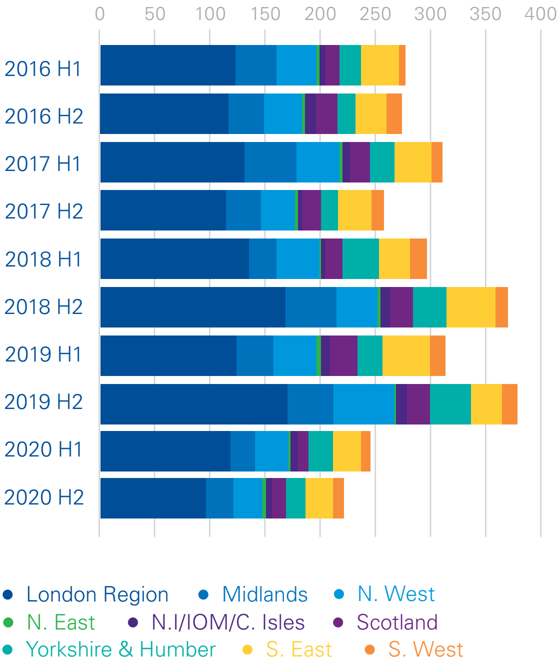
	% YoY Volume Change		% YoY Value Change	
Region	FY 2019	FY 2020	FY 2019	FY 2020
London Region	-3.4%	**-26.7%**	0.3%	**-28.6%**
Midlands	5.8%	**-37.0%**	29.1%	**-40.1%**
N. West	24.7%	**-40.7%**	34.2%	**-41.8%**
N. East	20.0%	**-16.7%**	65.0%	**-49.4%**
N.I/IOM/C. Isles	54.5%	**-35.3%**	77.9%	**-38.3%**
Scotland	25.0%	**-48.9%**	51.8%	**-51.6%**
Yorkshire & Humber	-4.9%	**-34.5%**	-0.9%	**-28.3%**
S. East	-2.8%	**-30.4%**	13.0%	**-38.5%**
S. West	4.0%	**-30.8%**	36.5%	**-40.8%**

UK mid-market PE deal volume % by UK region

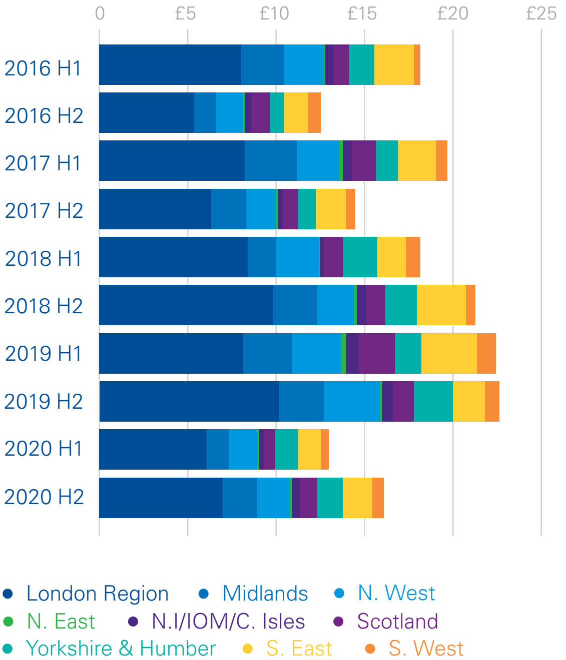


Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

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	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
London Region	-4.2%	-43.0%	**-18.3%**	-24.9%	-31.5%	**13.8%**
Midlands	-33.3%	-40.0%	**9.1%**	-57.6%	-21.0%	**71.5%**
N. West	-21.6%	-53.7%	**-13.8%**	-40.3%	-43.0%	**11.8%**
N.East	-50.0%	50.0%	**50.0%**	-71.6%	5.3%	**49.5%**
N.I/IOM/C.Isles	-25.0%	-44.4%	**-16.7%**	-55.4%	-17.5%	**52.4%**
Scotland	-60.0%	-35.0%	**30.0%**	-68.8%	-21.7%	**44.6%**
Yorkshire & Humber	-4.5%	-52.8%	**-19.0%**	-14.0%	-37.9%	**7.3%**
S. East	-41.5%	-14.3%	**0.0%**	-60.0%	0.6%	**38.6%**
S.West	-38.5%	-23.1%	**25.0%**	-56.2%	-20.9%	**38.8%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Deal types

"The continued attraction of bolt-on deals is unsurprising, particularly against a background of pandemic-driven economic uncertainty. They are seen as an efficient and relatively low-risk strategy for PE firms to deploy capital, supporting portfolio companies to consolidate a fragmented market, enter new geographies, or expand product or service offerings."

Bolt-ons
£14.6bn
52% of total deal value in the mid-market

Bolt-ons
263 deals,
57%
of all mid-market PE volume

Minority
£3.2bn
11% of all deal value in the mid-market

Minority
71 deals
16%
of all mid-market PE volume

Bolt-on transactions made up the largest proportion of deals in terms of volumes and values in 2020. There were 263 bolt-on transactions. Although over 30% down on 2019 and the lowest level for five years, these still represented 57% of all mid-market PE deals.

The continued attraction of bolt-on deals is unsurprising, particularly against a background of pandemic-driven economic uncertainty. They are seen as an efficient and relatively low-risk strategy for PE firms to deploy capital, supporting portfolio companies to consolidate a fragmented market, enter new geographies, or expand product or service offerings.

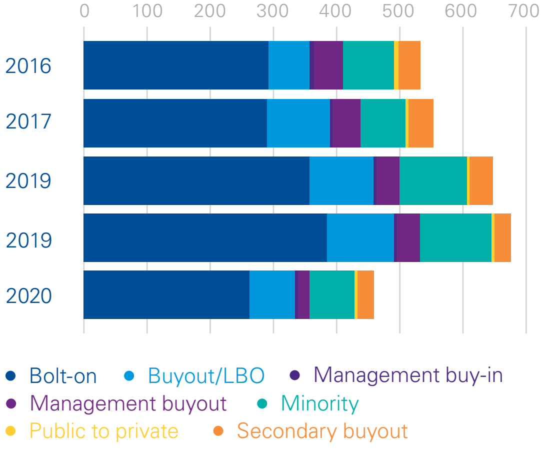
Minority investments also proved popular with 71 deals, albeit this was 36% fewer than 2019. After changes to Entrepreneurs' Relief were announced early in the year, combined with an anticipated overhaul of the Capital Gains Tax regime, it is likely that business owners who were not ready to sell in full, instead took the opportunity to cash out and de-risk at current rates and avoid a larger tax bill later.

Secondary buyout volumes showed the lowest reduction on 2019 figures, down just 4%. This could be due to the fact that the PE backed businesses which were brought to market had demonstrated resilience in a challenging year, and in some cases benefited from structural market changes, thereby representing robust and attractive investments for PE in the form of secondary buy-outs.

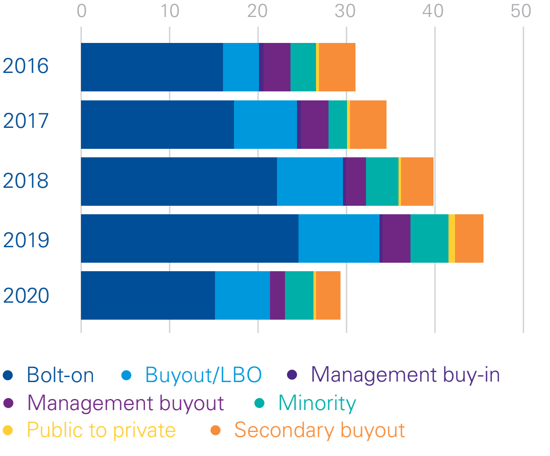
Public-to-private deals remained steady, with five deals in 2020, the same as 2019. Pre-COVID we had anticipated an increase in public-to-private activity, and while it didn't decline, it did plateau due to instability in share prices, meaning it was harder to execute deals.

Although not covered in our data, we have seen evidence of a rise in corporate carve-outs as organisations look to justify high share prices by refocusing on their core business. This may mean freeing up capital by selling-off non-core assets, or equally, bolstering their core business by acquiring new assets.

Full year UK mid-market PE volumes by deal type

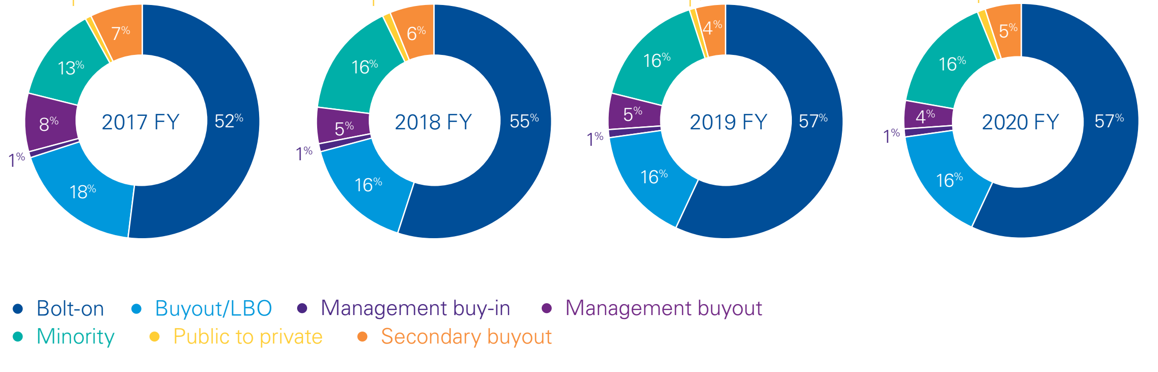


Full year UK mid-market PE values £bn by deal type



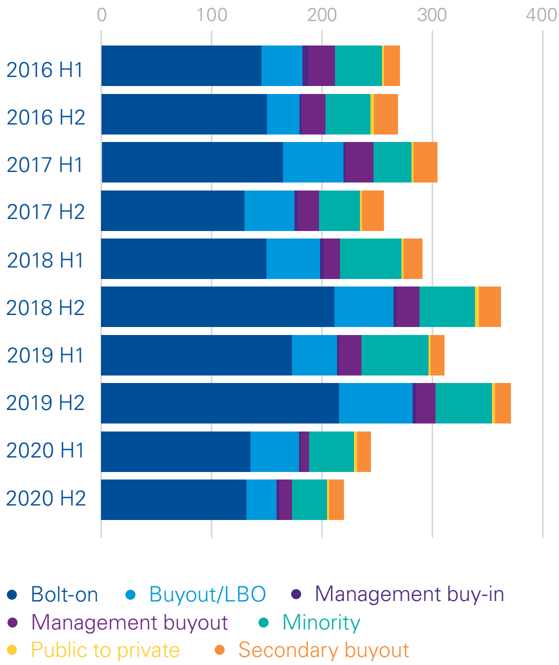
	% YoY Volume Change		% YoY Value Change	
Deal type	FY 2019	FY 2020	FY 2019	FY 2020
Bolt-on	7.6%	**-31.5%**	10.6%	**-38.5%**
Buyout/LBO	5.0%	**-33.0%**	24.6%	**-32.4%**
Management buy-in	0.0%	**-20.0%**	-5.3%	**-58.2%**
Management buyout	2.8%	**-48.6%**	31.5%	**-50.2%**
Minority	5.7%	**-36.0%**	24.0%	**-26.5%**
Public to private	0.0%	**0.0%**	79.1%	**-51.2%**
Secondary buyout	-29.7%	**-3.8%**	-10.8%	**-12.6%**

UK mid-market PE deal volume % by deal type

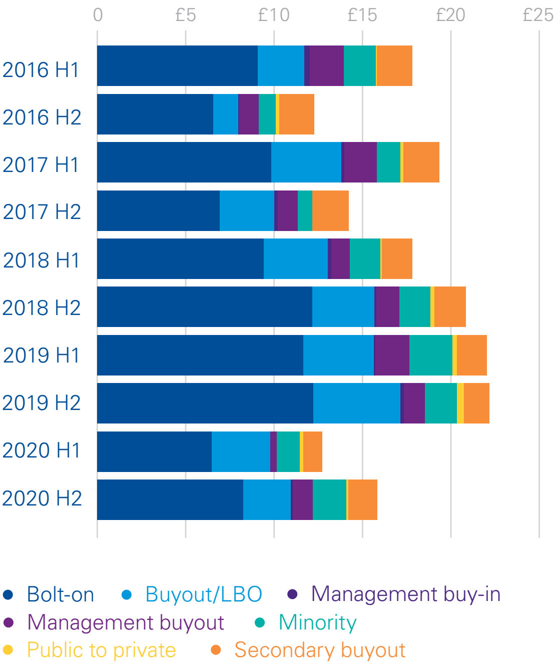


Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

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	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
Bolt-on	-22.2%	-39.0%	**-2.3%**	-44.6%	-32.6%	**27.7%**
Buyout/LBO	10.0%	-59.1%	**-38.6%**	-16.8%	-45.1%	**-19.1%**
Management buy-in	0.0%	-33.3%	**0.0%**	-100.0%	-45.7%	**0.0%**
Management buyout	-65.0%	-29.4%	**71.4%**	-80.2%	-1.3%	**205.6%**
Minority	-33.3%	-39.2%	**-22.5%**	-48.2%	3.1%	**46.7%**
Public to private	50.0%	-33.3%	**-33.3%**	-11.6%	-76.1%	**-57.0%**
Secondary buyout	0.0%	-7.1%	**8.3%**	-34.5%	12.9%	**48.6%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Deal multiples

"The slight fall-off in multiples in the mid-market is likely an indication of the different experiences between sectors and a 'flight to quality' on the part of PE investors."

In a reverse of last year's scenario, the overall UK M&A and PE markets both saw a marginal increase in deal multiples in 2020. The average M&A multiple increased from 8.5x to 8.7x EBITDA, while the average PE multiple decreased from 11.0x EBITDA to 8.7x EBITDA.

The mid-market saw multiples fall from 11.6x EBITDA in 2019 to 10.7x in 2020. We have seen a significant range in valuations reflected in our deals, particularly in Q2 and Q3, with multiples ranging from single figures to above 20x, a trend that could have influenced this lower blended multiple in the mid-market during the year.

There were fewer "mid-range" deals coming through that may have previously attracted a modest multiple of 5x to 7x EBITDA. This kind of transaction has been harder to execute because they were typically driven by lower-growth businesses in sectors that have been more impacted by the pandemic, such as manufacturing or industrials.

At the same time, those smaller deals that have managed to execute have seen the multiples reduced due to the prevailing economic circumstances, while multiples in those sectors that have continued to perform strongly, such as TMT and tech-enabled businesses, have stayed high – and potentially risen in the last months of the year – with more capital chasing fewer high-quality deals.

8.7x

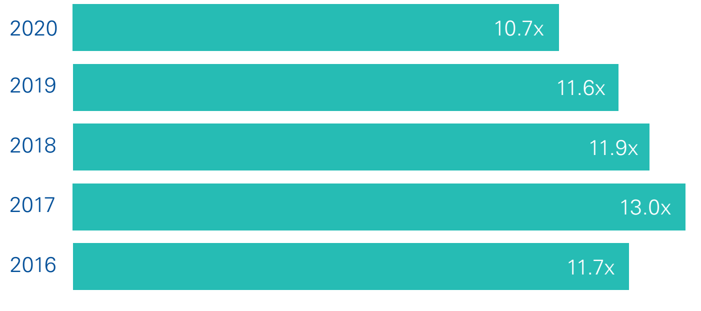
All UK M&A EV/EBITDA multiples

8.7x

All UK PE EV/EBITDA multiples

10.7x

All UK mid-market EV/EBITDA multiples



Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

Value Creation

Phil Murden
Partner - Consulting

For certain portfolio businesses, 2020 was simply about survival. For many others, this was the year for adapting and innovating.

Alongside COVID-19 in 2020, UK businesses were preparing for a new relationship with Europe. They adapted to customers' new buying habits, while society upped the ante on equality, climate, sustainability and the importance of businesses having genuine purpose.

The mid-market felt all of this and responded with as much vigour as the larger corporates. We saw fantastic examples of innovation in response to the COVID-19 crisis, from gin distilleries and skincare businesses which shifted to producing hand gels, to fashion businesses which switched to face masks and PPE.

But with 2020 behind us, portfolio businesses are now shifting attention from short term resilience to longer term horizons. They are focused on creating value across all areas, with the smart ones realising the value of building agility into everything they do – be it their technology, their cost base, their channels to market or their employee propositions.

Not only does this protect businesses in the future - it allows them to flex their operating models as markets, customers and society adapt around them. And, in the long term, it helps command the highest multiples on sale, as buyers place value on resilience and flexibility.

In embracing agility, here are four example levers we've seen forward-thinking businesses focus on:

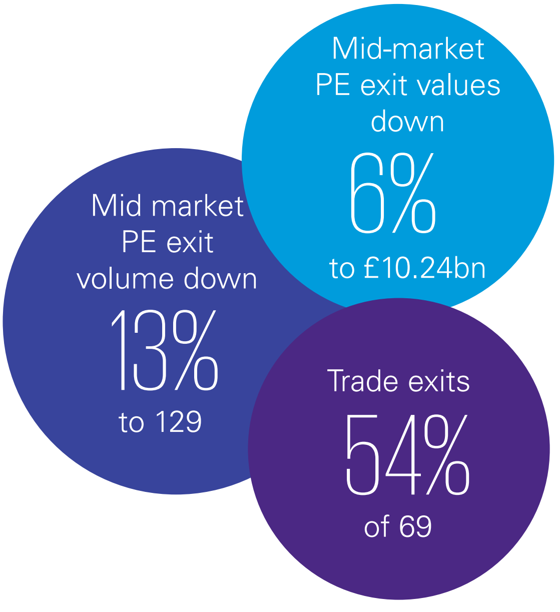
1. **The power of digital transformation and technology** to accelerate growth and meet customers' ever-increasing digital expectations. Portfolio companies have weathered storms, but often their infrastructure has been found wanting. We've seen many adopt new ERP systems and revamp back office functions like Finance, HR and IT to reduce overly manual processes and allow businesses to scale organically and by much easier bolt-on acquisitions. New CRM systems have enabled greater insight into customer demands and better cross sell. Digital transformation benefits exit value by driving greater customer revenue but also from a fundamentally stronger and more scaleable platform for the next owner's own growth ambitions.

2. **Harnessing data and insights** to make better business decisions. In the context of accelerating pre-existing trends and new behaviours being formed during the pandemic, maximising the use of data has never been as important. Management teams require accurate, actionable and 'always on' information rather than periodic reports that are out of date by the time they are used. However, good information alone does not provide a competitive edge; it needs to be mined and refined using more advanced analytical techniques to generate insights. This often involves taking data from multiple systems to create a single view. The use of predictive analytics and AI has become much more mainstream in 2020 even in mid-sized businesses investing to segment customers, better predict demand and drive customer revenues and lower churn.

3. **Prioritising talent and employee well-being**. 2020 accelerated future ways of working to become the norm, often within days and weeks. This has surfaced opportunities and challenges for sourcing, and developing talent as well as performance and retention. Employee well-being has jumped to the top of any good leader's priority list. PE have managed to access better talent where geographic limitations of where people live and work are now less relevant. Remote and hybrid working is now combined with a myriad of new possible contracting models and working patterns. This brings an increasingly efficient workforce. Focus is moving from roles to skills. The critical skills are needed at the right time requiring new thinking on workforce planning and undermining a traditional approach to job roles and linear succession. This is opening-up options around the workforce shape, in terms of the 'build, buy, borrow, bot' skills mix needed to deliver vital value adding activities.

4. **Risk remains a top priority for PE** and their management teams. Businesses went much further in 2020 to defend value by focusing more on risk and controls. The fundamental importance of cyber risk management in both protecting value and enabling growth became even more apparent. As businesses rapidly moved to remote working, this introduced new risks which haven't always been appropriately managed. Criminals continue to take advantage of this, with increased incidents of fraud and cyber-attacks (e.g. 48% of businesses have suffered a ransomware attack). Third party risk, and the associated reputational fall out is also forefront in the minds of many. For many portfolio businesses where internal audit is not a regular feature, we have seen a move towards risk and control assurance through health-checks or reviews of high risk processes. No management team or PE house wants to go through the stress of dealing with a control failure in private never mind in the public eye. As such, value protection is now being viewed as importantly as value creation.

Mid-market PE exits



"Exits fell from 148 in 2019 to 129 in 2020, a 13% decrease, with aggregate values holding steady at around £10 billion. Of the exits that did occur, 33% of these were in the Business Services sector and 31% were in the TMT space."

As noted in previous editions of this report, the longer-term trend of diminishing exit volumes in the UK PE mid-market over the past two years was a feature of note. This was driven in part by Brexit uncertainty and the General Election making it a sub-optimal time to exit an investment. Given the unprecedented events of 2020, it was perhaps no surprise to see exits on hold.

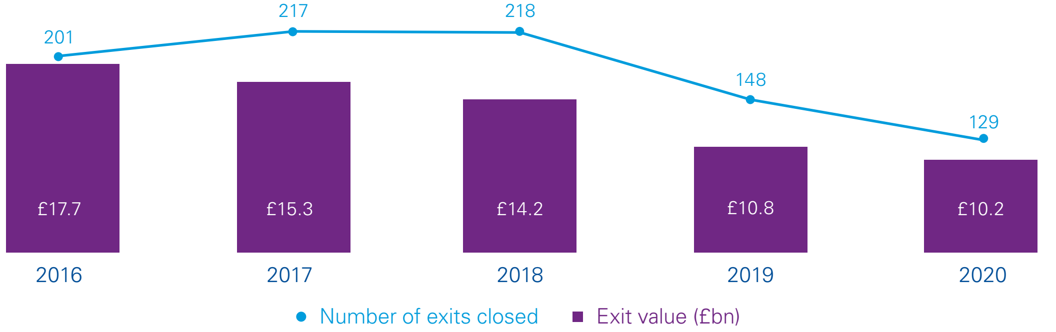
Exits fell from 148 in 2019 to 129 in 2020, a 13% decrease, with aggregate values holding steady at around £10 billion. Of the exits that did occur, 33% of these were in the business services sector and 31% were in the TMT space.

On closer analysis, however, the picture is more positive. Q1 2020 actually saw an increase in PE-backed exits, with 40 exits completed, up from 34 in Q4 2019. After a lockdown-driven slump in Q2 and Q3, as could be expected, exit volumes rose dramatically in Q4 to 45 transactions, the highest quarterly total since mid-2018, while aggregate values reached £5 billion, the highest figure since Q1 2017.

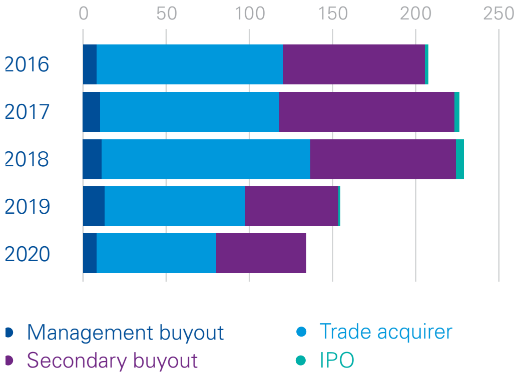
Exits to trade buyers, in particular, were muted, declining from 81 in 2019 to 69 in 2020, as potential trade acquirers focused on managing the impact of the pandemic.

Secondary buy-outs proved more resilient, with only two fewer exits than in 2019. As noted, those businesses that were brought to market by PE had demonstrated resilience and as such may have been their best assets, making them more likely to be of interest as a secondary investments by another PE investors.

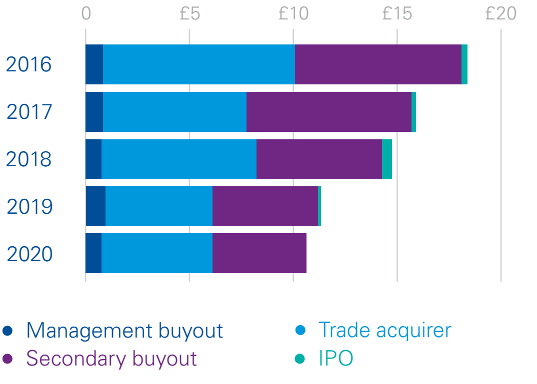
Full year mid-Market PE Exits by deal £bn value and volume



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

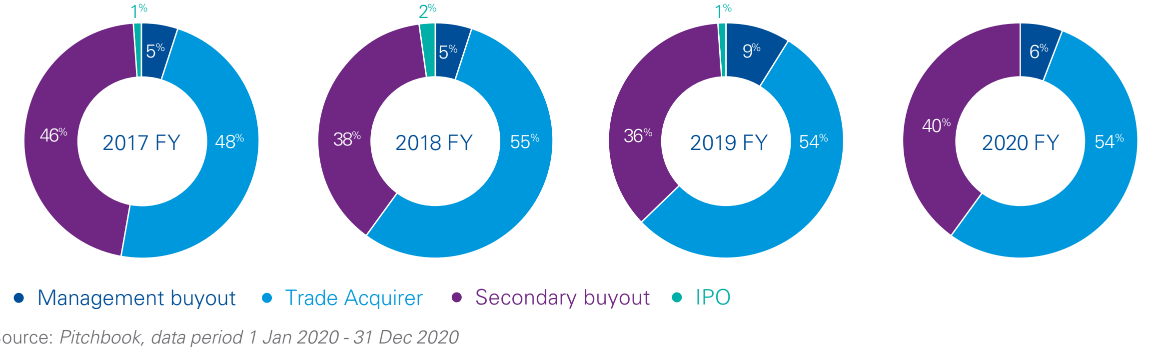


Full year mid-market Private Equity Exits by deal value (£bn)



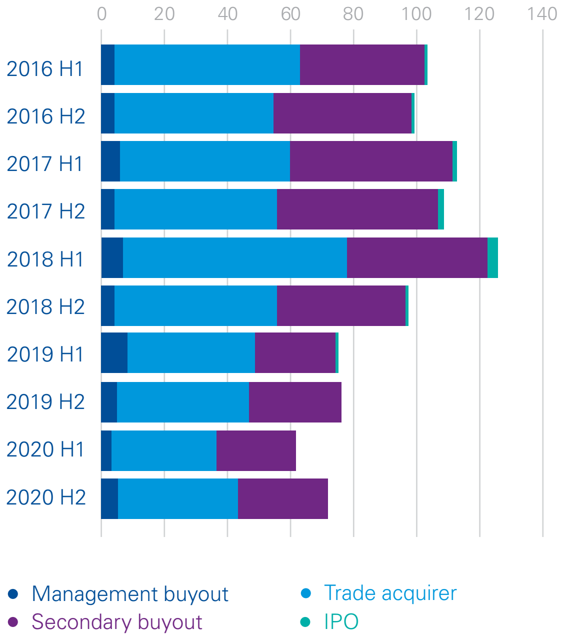
	% YoY Volume Change		% YoY Value Change	
Exit type	FY 2019	FY 2020	FY 2019	FY 2020
Management buyout	18.2%	**-38.5%**	25.1%	**-18.9%**
Trade acquirer	-33.1%	**-14.8%**	-30.9%	**4.2%**
Secondary buyout	-35.7%	**-3.7%**	-16.1%	**-11.2%**
IPO	-75.0%	**-100.0%**	-82.0%	**-100.0%**
Total	32.2%	**-13.4%**	-23.6%	**-5.5%**

UK mid-market PE deal volume % by Exit Type

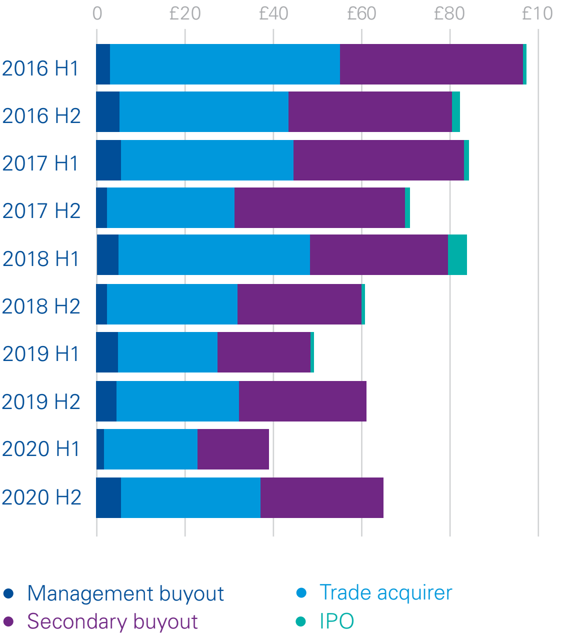


Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

UK mid-market Exit Volumes by Exit Type



UK mid-market Exit Values by Exit Type (£bn)



% change deal volume and value by Exit Type

	% Volume Change			% Value Change		
Sector	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1	% YoY change H1 v H1	% YoY change H2 v H2	% change 2020 H2 v H1
Management buyout	-62.5%	0.0%	**66.7%**	-62.2%	30.3%	**203.9%**
Trade Acquirer	-17.5%	-12.2%	**9.1%**	-6.5%	12.9%	**49.0%**
Secondary buyout	0.0%	-6.9%	**8.0%**	-22.5%	-3.0%	**72.4%**
IPO	-100.0%	0.0%	**0.0%**	-100%	0.0%	**0.0%**

Source: *Pitchbook, data period 1 Jan 2020 - 31 Dec 2020*

PE trends to watch out for

Jonathan Boyers
Partner - UK Head of
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After such a dramatic year in 2020 for every facet of society, it would be foolish to make too many predictions around what to expect in 2021. Going into 2021, given the roll-out of the vaccination programme and a no-deal Brexit being avoided, there is cause for a renewed sense of optimism and positivity for M&A activity generally.

The UK's COVID-19 vaccination programme looks set to finally put the worst of the pandemic behind us, Brexit is finally done and an EU trade deal agreed, a business-friendly government is in power, and confidence is returning.

Whether people agree with the politics or not, dealmakers thrive on certainty and stability, and both have been in short supply in recent years.

Already, the signs from Q4 2020 bode well for PE-related activity in 2021, not least the understandable 'bounce' factor of a post-Brexit, post-COVID economy.

PE houses continue to sit on substantial levels of investment capital and, after the muted activity levels of 2020, will be eager to invest in strong businesses that have demonstrated the resilience to thrive during an undeniably challenging period.

At the same time, business owners who were reluctant to sell until Brexit was finalised, and then delayed again due to the pandemic, will be eager to finally bring their transactions to the market. The tax situation is also likely to drive deal flow, with sellers keen to maximise their returns ahead of a possible rise in CGT, whether in 2021 or 2022.

Given the sector-specific impact of lockdown, some sectors will fare better than others. There will be growth in some sectors – TMT, Business Services, Healthcare, Online retail - as lockdown ends and confidence returns, which is likely to drive increased M&A activity. In other sectors, particularly as government support is withdrawn, businesses will struggle, which is likely to lead to a decline in overall M&A, but a possible increase in distressed activity.

Overall economic performance is hard to anticipate. There will be a huge price to pay for the response to the pandemic. Nevertheless, confidence and sheer relief should be enough to drive an increase in GDP and ensure a healthy market for mid-market PE transactions. Fundraising has continued throughout 2020 and with the large amount of dry powder raised and current debt availability, the conditions are good for continued deal activity in 2021.

Methodology

Report scope covers period 1 January 2020 - 31 December 2020

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.

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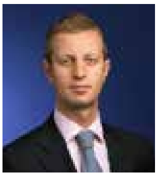

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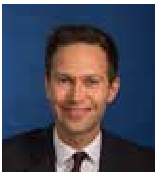

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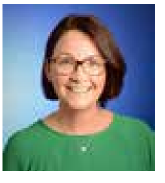

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