The Private Equity Review:

Our review of the extraordinary year that was, and a look ahead to the next 12 months

JULY 2021

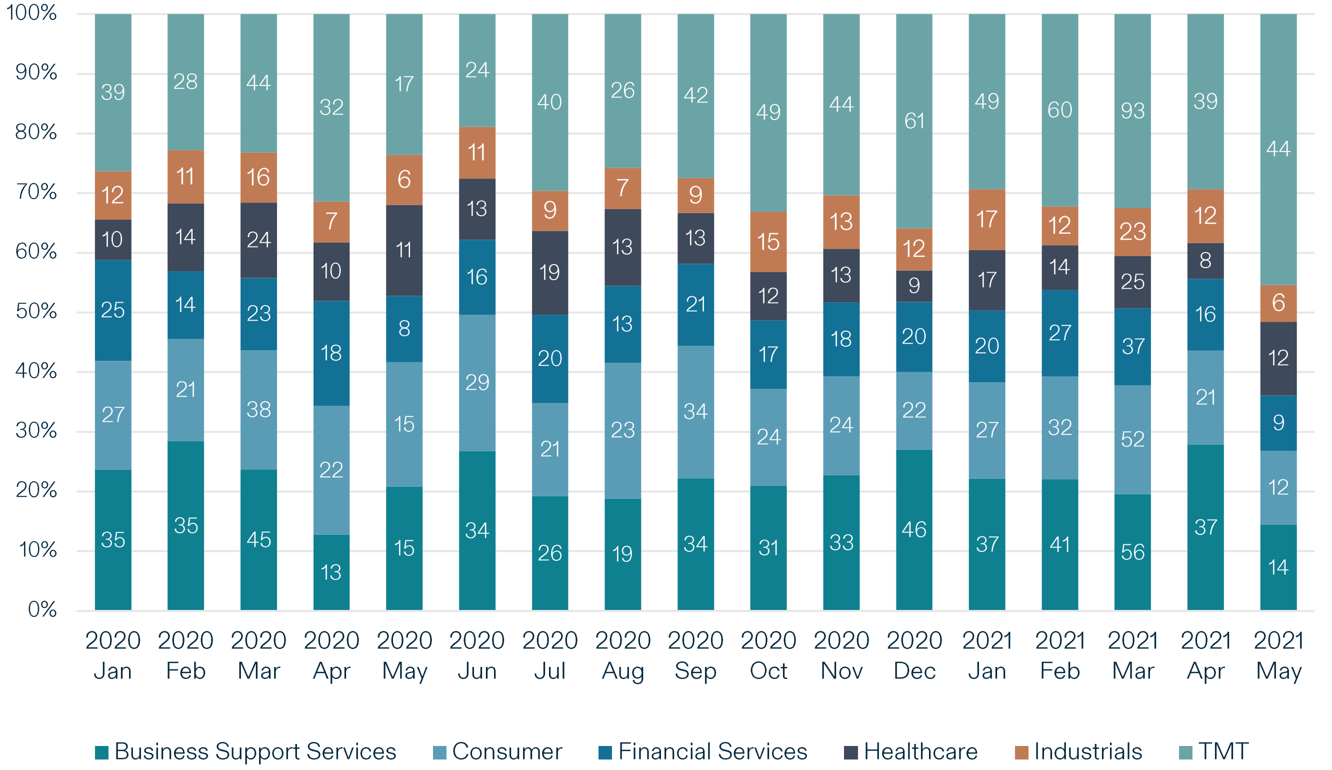
"I'm hugely excited about the wave of M&A opportunities we are seeing in the market. The private equity boom is mirroring the IPO boom and as such we are well placed to exploit this with our ability to service clients' needs and those of the private equity community, whether sell side, buyside, debt advisory, IPO or growth capital."

Sam Smith, CEO, finnCap Group

The Covid-19 pandemic has triggered a surge in private equity takeovers of UK firms, with their value reaching their highest level since the financial crisis in 2008.

Covid initially caused a slowdown in deal making activity with investors in strict damage limitation mode and rightly so. Private equity had to focus on their portfolio companies and needed to support the incumbent management teams of the portfolio to ensure that businesses were well capitalised to weather the headwinds that we all knew we would face in 2020. However, as the year progressed, we saw a flurry of deal making activity, where private equity firms were able to save some businesses that had struggled to cope with the tornado that ensued but also deploy capital into businesses that had flourished, notably anything that was ecommerce related.

PE Deals by sector monthly 2020-2021



Source: Pitchbook 2021

The graph shows a noticeable uptick in deal count from November last year. This comes down to the volume of dry powder available and has also been aided by the rise in SPACs in the US.

The economic disruption caused by the pandemic has presented numerous opportunities for private equity firms.

"While we had to adapt our working habits over the last year or so, the period since the start of the pandemic has remained busy for Baird Capital. In 2020, we made four new Global Fund platform investments and several add-on acquisitions. 2021 has continued to be very active for us, with the exits of Collingwood and Prescient, two new platform investments completed and further add-on acquisitions underway. The quantity of deal introductions was certainly impacted through 2020, but we did continue to receive deal flow, particularly across resilient sectors such as Pharma Services and Healthcare Services more generally. These are both markets in which Baird Capital has significant experience, and through 2020 and 2021, we have been able to continue to deploy capital into these sectors. Deal flow from other sectors started to pick up in the second half of 2020 and has continued into 2021. We expect the remainder of 2021 to remain busy for us, supported by the rapid bounce back in the global economy, restoring confidence. During the crisis, the need to operate remotely has driven an even greater focus on digital transformation and technology enablement and accelerated the adoption of new go-to-market and operating models across the technology services sector. This could create significant opportunities for those businesses that can facilitate this transformation."

Michael Holgate
Partner
Baird Capital

Sharp falls in share prices of some listed companies have made them a more attractive prospect to private equity houses. Whilst the recovery in market valuations has been powerful, and public market investors have been buoyed by considerable inflows that they have in turn deployed to support listed companies, the UK market valuations remain broadly beneath those of global peers. This is of course attributable to the continuing Brexit drag as the UK recalibrates itself. The difficulty for the PE investor is, of course, that the public markets are a shopping window with wares on show for everybody.

On Monday 21 June, Wm Morrison rejected a bid from US private equity firm Clayton, Dubilier & Rice which valued the supermarket group an EV of £8.7 bn. Although Morrisons has rejected the approach, saying the offer "significantly undervalued" the business, CD&R is expected to push ahead with its pursuit. They will not be the only PE house exploring the UK leisure and retail-facing sectors.

Throughout this period of activity, there have been a few notable trends. One trend over the past year has been an increase in the number of so-called 'club deals', when two or more private equity or trade buyers club together to jointly acquire a company. Secondly, previous reluctance of the PE community to be seen to try and fail has melted away and the "public bearhug" strategy has often been deployed to put shareholder pressure on target boards.

Occasionally this has resulted in bidders, who were initially competing against one another, join forces in a deal to acquire the target. This was the case in the takeovers of both Signature Aviation (acquired by Global Infrastructure Partners, Blackstone and Cascade Investment Fund) and the AA Group (acquired by a consortium of funds advised by TowerBrook Capital Partners). Interestingly, not all club deals are formed that way in their initial structure.

"On the P2P of Proactis (on which we advised), Pollen Street launched the offer before clubbing together with DBAY, a major target shareholder. We also advised on the ongoing takeover of Telit Communications plc where, coincidentally, DBAY publicly only achieved traction at the second attempt."

Henrik Persson, Head of Plc Strategic Advisory, finnCap Capital Markets

"It's been a really active deal market over the last 12 months in sectors more sheltered from Covid-19. This has been driven by a number of factors: corporates looking for scale and growth out of Covid; private equity's appetite to invest capital after a quiet H1 2020; and the false dawn of potential CGT changes, which drove a frenzy of activity at the back end of 2020 into early 2021. The market has been full of opportunity for both buyers and sellers. At Connection Capital we have had a really strong last twelve months having successfully exited two investments and completed three new direct investments. We feel deal momentum is set to continue as optimism grows with the vaccine roll out, the sectors impacted by Covid-19 rebound, and capital continues to chase strong performing assets."

Michael Coupland
Investment Director
Connection Capital

Looking at deal flow by sector, there has been a prevalence of deals in the business services, consumer and TMT sectors over the past 12 months. Investment cases can be made for all these where there has been a Covid tailwind (e.g. working from home) or an acceleration of certain consumer habits, such as e-commerce. Earlier this month Synova announced an investment in Orbis, the provider of critical security services in the business services sector. In consumer, IK Investment Partners acquired Forthglade Food Limited from Piper and in TMT ECI Partners acquired the analytics software provider Mobysoft from Livingbridge.

"It has been positive to see increasing M&A activity from Private Equity over the past 12 months as economic conditions start to stabilise and improve. Private Equity clients are extremely important to the wider finnCap firm and in Debt Advisory we have seen a commensurate increase in our Private Equity transaction flow over this period. During this time we have been delighted to help Chiltern Capital's portfolio company Hanmere complete the acquisition of Amerplast and Rockpool complete the acquisitions of Cambridge Maintenance Services and Acorn Engineering. These improved conditions have also seen Private Equity look to refinance out previously equity funded acquisitions with debt and again we are really pleased to have helped RJD Partners recently complete the debt recapitalisation of their Improve International business. However, the lasting effect of the pandemic is still having a disruptive impact on lender appetite for certain transactions and sectors given the impact it has had on their portfolios and therefore lending strategies. The role of debt advisor to help clients successfully navigate through a debt financing project at this time remains as valuable as ever."

Graham Cooke, Partner - Debt Advisory, finnCap Group

“Deal by deal gives Rockpool a significant competitive edge in both on and off market processes. It helps that we have a very strong track record of delivering funds, having invested over £500m in UK SME businesses. Our deal by deal model allows us to offer a greater level of flexibility when structuring a deal, enabling us to offer vendors very bespoke transaction terms. Additionally, we are not constrained by fund lifecycles so we are fully aligned with management teams to deliver maximum shareholder returns when it’s right for the business, not the fund.”

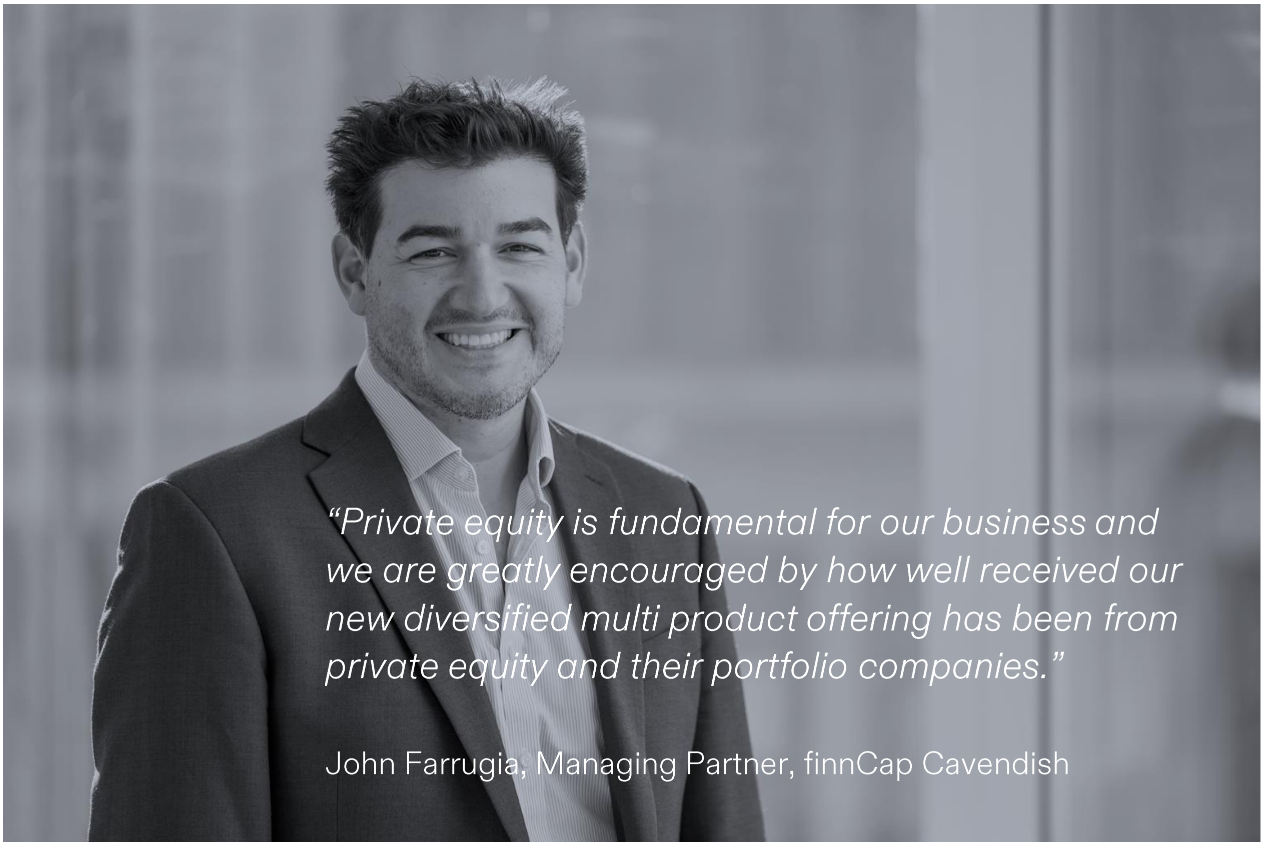
Guy Ellis
Investment Director
Rockpool Investments

We are confident and optimistic about 2021's deal activity and fully expect private equity to assist in aiding the recovery of our economy globally. This is further highlighted by the volume of lower and mid market funds that have successfully closed new funding vehicles. At this end of the market in December Queen's Park Equity announced the final close of its debut fund, which was oversubscribed and closed at its hard cap of £185 million of third-party constituents. And in May this year Livingbridge successfully raised £1.2 billion for its latest fund, the largest fundraise from the firm to date.

Private equity firms and their investors will no doubt play a key role in rebuilding our recovery as we start to exit lockdowns. As previously stated, there are attractively priced targets to bid for. In addition, PE firms have built up a huge amount of dry powder, following long periods of successful fundraising prior to the pandemic.

In Q1 2021, we have seen a spike in M&A deal volumes with 789 completed transactions marking the highest level seen for 13 years as private equity confidence and dry powder continue to soar. Institutions are still confident in the asset class and that is highlighted by the volume of capital that is continuing to be poured into private equity on an annual basis.

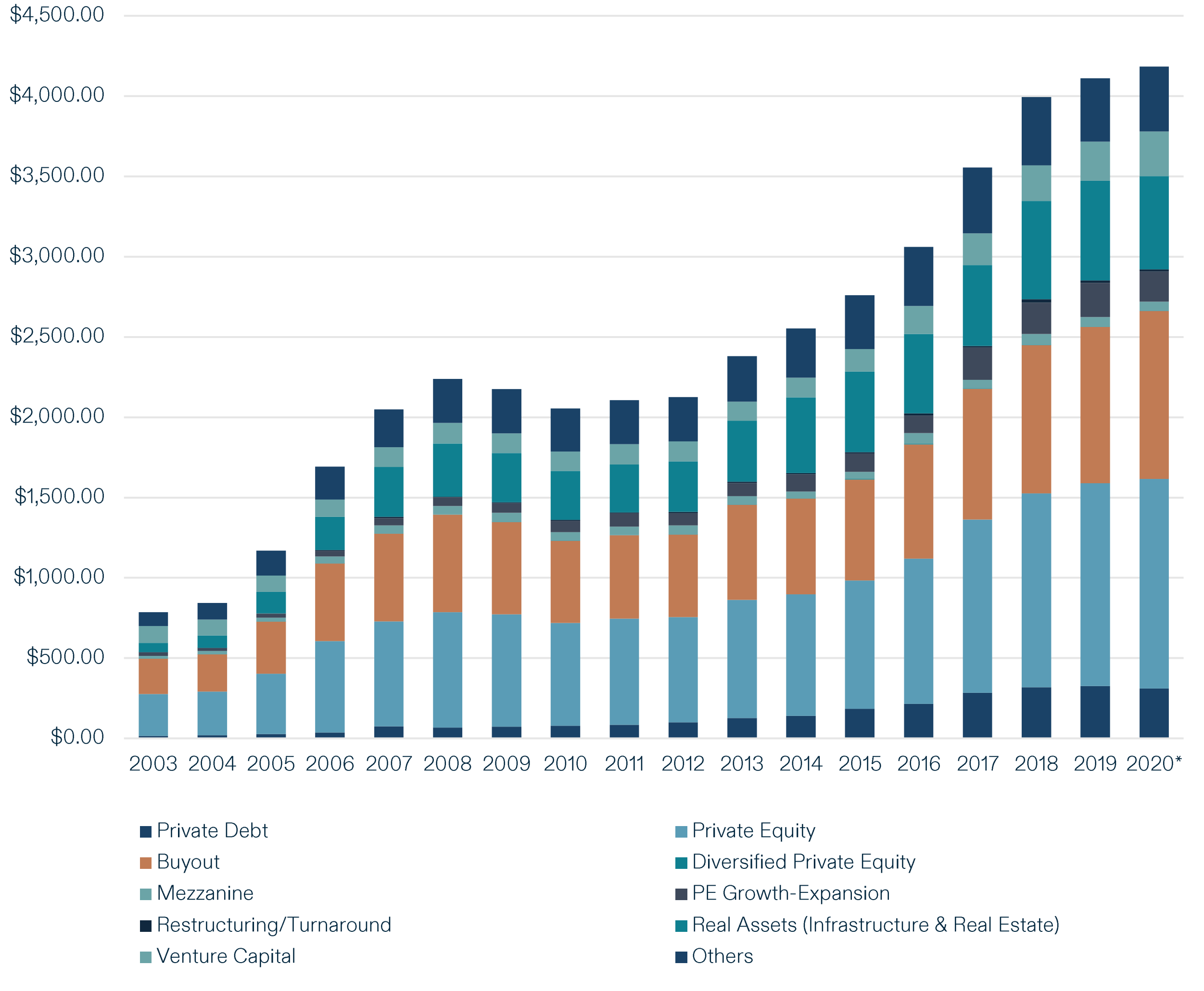
At finnCap Group in FY 20/21, which was a record year, we completed 71 transactions, including advising on 16 public and private M&A transactions with an aggregate value of £623m. We are sector focused but product agnostic. Our independent and integrated approach to financing whether that be equity, debt, IPO, P2P or Growth Capital, we have proved our ability to work on a multi-product basis whatever the situation requires.

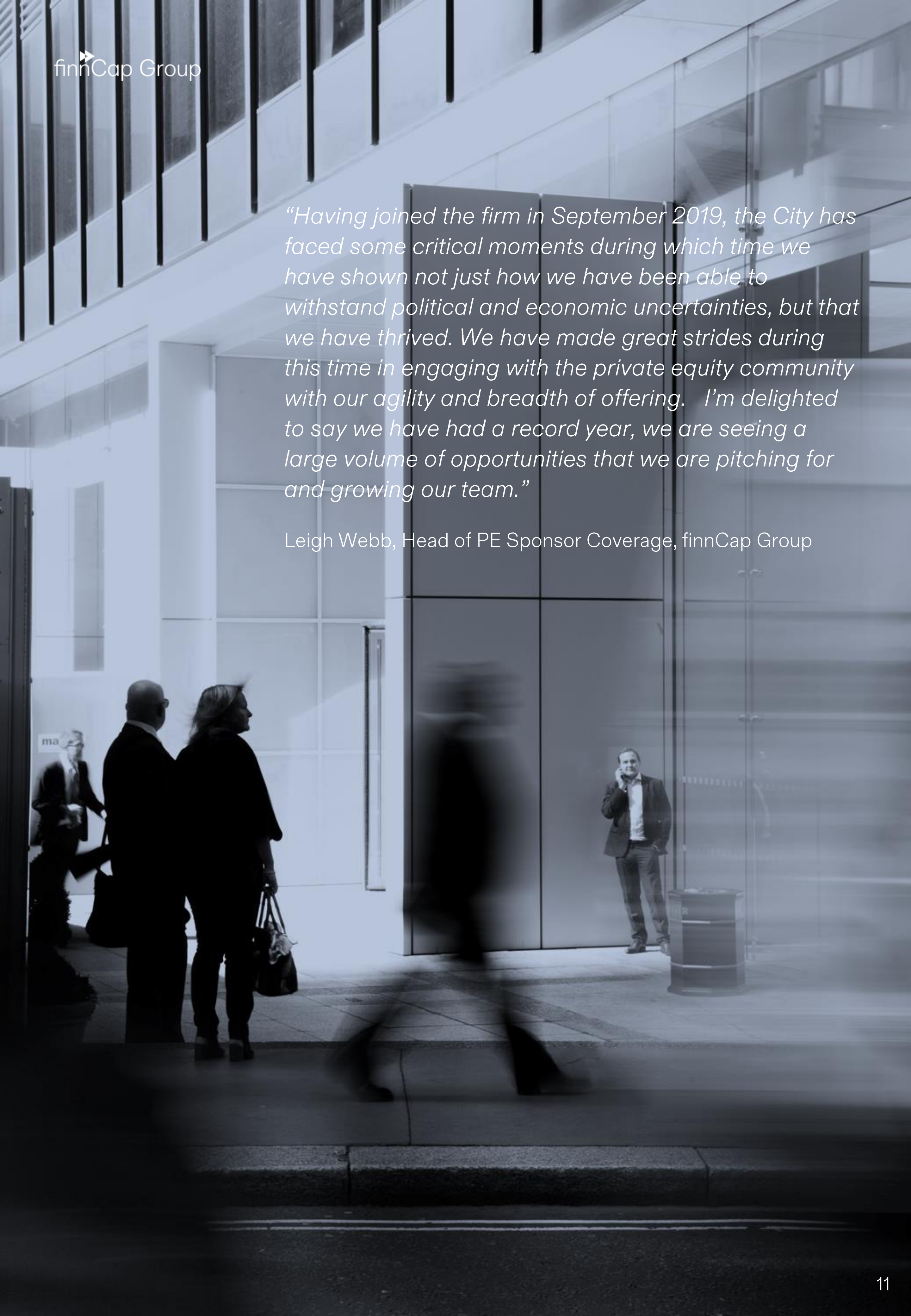


PE firms in the UK have stockpiled around £150bn in dry powder. This private capital should play a major part in assisting many businesses to survive, grow and flourish in the post Covid world.

As you can see the below graph it clearly shows the bull run that private equity fundraising has been on over the last 9 years. Many have been waiting for a slowdown, but it hasn't materialised as we see all of the institutions piling into the asset class that has performed so well in recent times. With many LP's looking to up their allocations GP's have the age-old question to answer – should we raise a larger fund? However, I expect most in the mid-market to stick to their knitting and continue to invest in businesses that fit with their investment DNA.

Global Dry Powder All Funds





"Having joined the firm in September 2019, the City has faced some critical moments during which time we have shown not just how we have been able to withstand political and economic uncertainties, but that we have thrived. We have made great strides during this time in engaging with the private equity community with our agility and breadth of offering. I'm delighted to say we have had a record year, we are seeing a large volume of opportunities that we are pitching for and growing our team."

Leigh Webb, Head of PE Sponsor Coverage, finnCap Group finnCap GROUP

Strategic advisory and capital raising services

finnCap CAPITAL MARKETS

Largest Nomad and AIM company financial adviser and no. 1 broker on AIM

finnCap CAVENDISH

Leading UK mid-market M&A house with global reach

ECM

Strategic capital market advice around liquidity events, IPOs and fundraisings

Plc Strategic Advisory

Strategic takeover, shareholder activism and financial advisory to publicly quoted companies and bidders

Debt Advisory

Identifying the optimal capital solution for growth

Private Growth Capital

Raising institutional capital for ambitious private companies

M&A

Leading M&A advisory with unrivalled specialist expertise in managing the sales process

Delivering your business ambition

finnCap Group provides strategic advisory and capital raising services to companies.

We are mid-market specialists dedicated to providing the highest quality service to our clients both private and public.

We provide quality broking and fundraising capabilities alongside excellence in M&A advisory with a global reach. We have sold over 600 companies to date and are recognised as the largest Adviser on the LSE and No.1 broker on AIM.

finnCap Group always put clients first delivering your business ambition, whether that is to raise growth capital, IPO, refinance, raise debt for your business, execute an acquisition or sell your business.

Our specialist sector knowledge and entrepreneurial approach helps companies to achieve their ambition.

HEAD OF PE SPONSOR COVERAGE

Leigh Webb

+44 (0)20 3772 4708
+44 (0)7842 004 520
lwebb@finncapgroup.com

AMBITION DELIVERED

1 Bartholomew Close
London, EC1A 7BL

+44 (0) 20 7220 0500
+44 (0) 20 7220 0597

WWW.FINNCAPCAVENDISH.COM
WWW.FINNCAP.COM