# Annual report on the performance of portfolio companies, XV

15th edition

**February 2023**

EY
Building a better working world

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Foreword

This is the 15th annual report on the performance of portfolio companies, a group of large, private equity (PE) owned UK businesses that met defined criteria at the time of acquisition. Its publication is one of the steps adopted by the private equity industry following the publication of guidelines by Sir David Walker to improve transparency and disclosure, under the oversight of the Private Equity Reporting Group (PERG).

This report addresses many questions that various stakeholders may have on the impact of private equity ownership on large UK businesses, by presenting facts and benchmarks to provide answers. The report is designed to be read stand-alone, summarising the accumulated data over the past 15 years of reporting; it also contains comparisons with last year's results and, for some measures, shows time series trends.

This year, the report covers 73 portfolio companies ('PCs', as defined according to criteria set by the PERG) as at the 2021 financial reporting year (2020: 64), as well as a further 113 portfolio companies that have been owned and exited since 2005. The findings are based on aggregated information provided on the portfolio companies by the PE firms that own them — covering the entire period of private equity ownership. This year, data was received covering 61 portfolio companies and 2 have been given a first year exemption, a compliance rate of 86% (2020: 89%). On many measures of performance, the data on the current portfolio is combined with data from portfolio companies exited in 2021 and earlier, which provides over 100 data points, typically measuring performance over several years and a compliance rate of 90% (2020: 93%).

With a large number of portfolio companies, a high rate of compliance, and fifteen years of information, this report provides comprehensive and detailed information on the effect of PE ownership on many measures of performance of an independently determined group of large UK businesses. The report comprises five sections:

Section 1: Introduction

Section 2: Summary findings

Section 3: Detailed findings

Section 4: Basis of findings

Section 5: Appendix – objective and fact base

This report has been prepared by EY at the request of the British Private Equity and Venture Capital Association ('BVCA') and the PERG. The BVCA has supported EY in its work, particularly by encouraging compliance amongst its members and non-members; the BVCA and the PERG have also provided comments on early drafts to EY. As in prior years, we welcome comments and suggestions on this report by contacting the members listed at the end of this report.

Yours faithfully

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2021 was a year of two halves. The year started with a UK-wide lockdown from January through to March due to a further resurgence of Covid-19, which unsurprisingly drove a reduction in economic activity. However, the roll out of the UK vaccination programme allowed for the steady removal of restrictions in Spring and Summer, which in turn led to a resurgence in activity in the second half of the year. In this context, UK GDP grew by 7.6% in 2021 which would be impressive in normal times, however given the 11% decline in 2020, the UK economy was still smaller at the end of 2021 compared to where it ended 2019.

The results of this year's review of business performance reflect these underlying economic conditions. Our analysis shows that portfolio companies delivered a significant improvement in results across the board, with revenue growth since acquisition of 7.8% CAGR and EBITDA growth of 6.0% in 2021, compared with 4.9% and 4.3% respectively in 2020. Consumer facing businesses in particular performed strongly, reflecting the disproportionate hit they took in 2020 due to lockdowns, and the release of considerable pent up demand through Summer 2021. However, the metrics in some areas still lag performance in comparison with 2019 – reflecting the fact that economic activity as a whole still lags pre-pandemic levels in many sectors. That said, the private equity backed businesses in our sample do appear to have outperformed publicly listed benchmarks in many areas.

The strong UK and global recovery in 2021 created its own set of issues, as supply chains struggled to keep up with demand, and labour shortages began to bite, all of which fed into inflation. This has been exacerbated by events in 2022, with the Russian invasion of Ukraine leading to an increase in commodity prices, in particular oil, gas and wheat. Higher prices have acted as a break on global economic growth in 2022 – giving central banks the dilemma of balancing controlling inflation against a worsening economic outlook. To date, the imperative to reduce inflation has driven UK interest rates to the highest levels for over a decade, albeit to levels which as still relatively low in historical terms. Many private equity backed businesses have been able to outperform public businesses through the pandemic and its immediate recovery. We look forward with interest to seeing how private equity backed businesses perform in 2022 and 2023 in the face of these economic headwinds.

Peter Arnold

Partner, Economic Advisory, Ernst & Young LLP

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# 1 Introduction

# What are the objectives of this report?

The objective of this annual report is to present independently prepared information on key stakeholder questions, to inform the broader business, regulatory and public debate on the impact of PE ownership on large UK businesses.

- This study by EY reports on the performance of the large UK businesses (the portfolio companies, referred to as 'PCs') owned by PE investors that meet the criteria determined by the PERG. It forms part of the actions implemented by the PE industry to enhance transparency and disclosure, as recommended in the guidelines proposed by Sir David Walker in November 2007.
- By aggregating information on the businesses that meet a defined set of criteria at the time of their acquisition, there is no selectivity or performance bias in the resulting data set. This is the most accurate way of understanding what happens to businesses under PE ownership.
- Key questions of interest to the many stakeholders in the portfolio companies that are addressed in this report include:
  - Do portfolio companies create jobs?
  - How is employee compensation affected by PE ownership, e.g., pay and pension benefits?
  - Do portfolio companies increase or decrease investment in capital expenditure, R&D and bolt-on acquisitions or partial disposals?
  - What are the levels of financial leverage in the portfolio companies, and how do they change over time?
  - How do labour and capital productivity change under PE ownership?
  - Do companies grow during PE ownership?
  - What is the level of gender diversity in the portfolio companies?
  - How do PE investors generate returns from their investments in the portfolio companies? How much is attributable to financial engineering, public stock market movement and strategic and operational improvement?
- The findings of this report constitute a unique source of information to inform the broader business, regulatory and public debate on the impact of PE ownership, by evidencing if and how its distinctive features (including investment selection, governance, incentives and financial leverage) affect the performance of large UK businesses.
- This is the 15th report covering performance data up to a latest date of June 2022 (2021 financial year-end). It is written to be read as a stand-alone report with comparisons with prior years' findings included for reference.

# Introduction

| Question | | Page No |
|---|---|---|
| **What period does this report cover? How have any potential impacts from the pandemic been considered?** | ► Data presented in this report reflects results of companies with part of the financial year falling in 2021 (i.e., current portfolio companies have a financial year ending between 30 June 2021 and 30 June 2022).The comparative period relates to years ending in the period 30 June 2020 to 30 June 2021.<br>► The data and analysis in this report includes periods impacted by the recovery from the COVID-19 crisis and comparative periods that were significantly impacted by COVID-19. | – |
| **What are the objectives of this report?** | ► The objective of this annual report is to present independently prepared information on key stakeholder questions, to inform the broader business, regulatory and public debate on the impact of PE ownership on large UK businesses. | 6 |
| **Key factors for consideration** | ► Significant dispersions can be seen across the results of portfolio companies, specifically in trading activities. This is likely due to varying levels of recovery in trading results since the COVID-19 pandemic (which materially impacted results in the comparative period). | 62–63 |
| **What are the distinctive features of the PE business model?** | ► The distinctive features of the PE business model include controlling ownership (typically active ownership) of its portfolio company investments, the use of financial leverage, and its long-term investing horizon. | 64 |
| **What are the criteria used to identify portfolio companies, and how are they applied?** | ► Portfolio companies are identified at the time of their acquisition, based on criteria covering their size by market value, the scale of their UK activities and the remit of their investors. The criteria and their application are independently determined by the PERG. | 65–66 |
| **How robust and representative is the data set used in this report?** | ► The aggregated data in this report covers 90% of the total population of portfolio companies (including exits). This year, compliance for the current portfolio companies was 63 of 73, or 86%.<br>► This report represents an analysis on 61 PCs; the remaining two PCs have been given a first year exemption. | 67–71 |
| **What are the time period and coverage of the measures used to evaluate performance?** | ► The two main measures used in this report cover a) the entire period of PE ownership of all the portfolio companies, i.e., from initial acquisition to latest date or exit, and b) the latest year and prior-year comparison of the current portfolio companies. | 72 |
| **What performance measures are presented in this report, and how do they interrelate?** | ► This report presents a range of performance measures to test the impact of PE ownership on the portfolio companies' resources, productivity, trading, leverage and investor returns. | 73 |
| **How accurate are the individual portfolio company submissions?** | ► The portfolio company submissions are mostly drawn from key figures disclosed in published, independently audited annual accounts.<br>► The data returned to EY is checked for completeness and iterated with the PE firms as required. | 74 |

# 2 Summary findings

# Summary findings

It is not possible to accurately isolate the impact of the COVID-19 pandemic and recovery on the financial and operational data included in this report. It is evident, for a number of the criteria tracked in this report, that the year on year (YoY) results for 2021 exhibit a different trend to that observed in many of the periods prior to 2020. We would expect the impact of the pandemic in 2020 and recovery in 2021 to have been the material driver of this. In an attempt to look through any COVID-19 related contraction and post-pandemic recovery observed in portfolio companies, we have compared 2021 with 2019 across various metrics.

| Question | Key findings | Page No |
|---|---|---|
| **How long does PE invest in the portfolio companies?** | ► The average timeframe of PE investment in the portfolio companies is 5.9 years (2020: 5.9 years) for historical exits, i.e., from initial acquisition to exit. The current portfolio companies have been owned for an average of 4.2 years (2020: 4.1 years). | 14 |
| **Do PE-owned companies grow?** | ► The portfolio companies have increased reported revenue at 7.8% CAGR since acquisition (2020: 4.9%) and EBITDA at 6.0% CAGR (2020: 4.1%); organic revenue and EBITDA has increased at 4.9% and 4.3% CAGR respectively since acquisition (2020: 1.9% and 2.3%).<br>► The portfolio companies outperformed the public company benchmarks at a (reported) revenue increase of 7.8% vs. 2.3% and EBITDA increase at 6.0% vs. 5.6% per annum respectively.<br>► The portfolio companies reported growth in organic YoY revenue and EBITDA performance in 2021 vs. 2020, which likely reflects a recovery from the impact of the pandemic on 2020 performance.<br>► There is a wide range of results in 2021 trading performance in the current portfolio companies at both a sector and company level, with the outperformance partly driven by the consumer sector achieving higher growth in profitability (EBITDA) than other sectors. | 15–24 |
| **Do portfolio companies create jobs?** | ► Reported employment under PE ownership has increased by 1.5% per annum (2020: 0.9%) since acquisition. Underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) has stabilised in 2021 (nil growth) in comparison with -0.8% in 2020.<br>► Annual employment growth (CAGR) of the portfolio companies is slightly below (i) the private sector benchmark at 0.0% vs. 0.3% growth (organic), and (ii) the public company benchmark at 1.5% vs. 1.7% growth (reported).<br>► Organic YoY employment growth in the portfolio companies at 2.2% has outperformed the ONS private sector benchmark (1.1)%.<br>► At the sector and company level, there is a wide range of movements in organic employment (presumably reflecting several factors, including the recovery from the global COVID-19 pandemic in 2020). The technology sector outperformed other sectors in terms of year-on-year organic growth. | 25–28 |

# Summary findings (cont'd)

| Question | Key findings | Page No |
|---|---|---|
| **How is employee compensation affected by PE ownership: pay, terms and pension benefits?** | ► Average employment cost per head in the portfolio companies has increased by 2.1% per annum under PE ownership (2020: 1.8%).<br>► Average annual employee compensation growth under PE ownership is consistent with the UK private sector benchmark at 2.1% CAGR, representing an increase compared with 2020, where reported average annual employee compensation growth under PE ownership was lower than the UK private sector benchmark (1.8% vs. 2.9% CAGR).<br>► Average employment cost per head increased YoY by 7.7% in 2021 compared with 2020, higher than the long-term trend and the UK private sector benchmark of 4.6% growth over the same period.<br>► Around 31% (2020: 38%) of jobs in the portfolio companies (which will include both part-time and full-time jobs) have annual compensation of less than £12,500. This is impacted by a high proportion of workers in the health care and consumer sectors (lower average compensation per employee) and may be attributed to the mix of full-time vs. part-time workers, with the health care and consumer sectors having 22% and 36% of the staff base on a part-time basis. Out of 61 current portfolio companies, 34 companies provided data for part time workers in 2021.<br>► There have been few changes in existing company defined benefit pension schemes under PE ownership. The aggregated value of liabilities of defined benefit schemes of current portfolio companies exceeds the value of assets; the average time to pay off the deficit is estimated as 4.5 years (2020: 4.0 years). | 29–36 |
| **Do portfolio companies increase or decrease investment in capital expenditure, R&D and bolt-on acquisitions or disposals?** | ► There has been growth in most measures of investment at the portfolio companies whilst under PE ownership, with measures for operating capital employed, Capex and R&D expenditure showing an increase compared with 2020 levels of growth.<br>► The YoY increase in operating capital employed was 6.4% in 2021, significantly above the 1.8% increase (excluding two outliers) in 2020.<br>► Of the current portfolio companies, 57% have made net bolt-on acquisitions whilst 10% have made net partial disposals, showing investment in bolt-on acquisitions ahead of partial disposals (2020: 54% and 11% respectively).<br>► PE investors, in aggregate, have used free cash flow and additional third-party debt to increase investment in the current portfolio companies. | 37–40 |

# Summary findings (cont'd)

| Question | Key findings | Page No |
|---|---|---|
| **How does labour and capital productivity change under PE ownership?** | ► Labour productivity has increased under PE ownership by (i) 4.2% (2020: 2.4%) as measured by growth in EBITDA per employee, and (ii) 3.1% (2020: 1.3%) as measured by growth in Gross Value Added (GVA) per employee.<br>► Capital productivity has increased under PE ownership by 10.1% per annum (2020: 10.7%).<br>► Annual increase in labour productivity in the portfolio companies is lower than the public benchmarks for EBITDA per employee (at 4.2% vs. 7.5%) but higher than the UK private sector benchmark for GVA per employee (at 3.1% vs. 2.0%). This differs from 2020 results where PCs were higher than public company benchmarks for EBITDA per employee (at 2.4% vs. 0.8%) but lower than the UK private sector benchmark for GVA per employee (at 1.3% vs. 1.9%).<br>► GVA per employee of portfolio companies increased YoY by 15.5% in 2021 (2020: -2.2%), which is higher the UK private sector benchmark of 6.7% per annum (2020: -2.2%), with both results impacted by strong EBITDA performance in 2021.<br>► Capital productivity increase in the portfolio companies exceeds public company benchmarks, at 10.1% vs. -1.9% growth per annum (2020: 10.7% vs. 0.4%). | 41–45 |
| **What are the levels of financial leverage in portfolio companies?** | ► In aggregate, combined current plus exited portfolio companies had an average leverage ratio of 6.6 gross debt to EBITDA at acquisition compared with 6.9 at latest date or exit (2020: 6.6 and 7.0 respectively).<br>► The current portfolio companies show an increase in leverage under PE ownership principally driven by businesses which have (i) not yet fully recovered from the impact of COVID-19 in 2021 and (ii) been refinanced post-investment by PE owners. | 46–47 |
| **What is the level of gender diversity in the portfolio companies?** | ► Female representation is 51% (2020: 50%) at an overall employee level across the current portfolio companies and 26% (2020: 24%) at the Director level. 37% (2020: 33%) of FTSE 250 board positions are held by females (source: Hampton-Alexander Review, Feb, 2022). | 48 |

# Summary findings (cont'd)

| Question | Key findings | Page No |
|---|---|---|
| **How do PE investors generate returns from their investments in the portfolio companies? How much is attributable to financial engineering, public stock market movement and strategic and operational improvement?** | ► The equity return from portfolio company exits is 3.0x (2020: 3.0x) the public company benchmark; c.40% of the additional return is attributed to PE strategic and operational improvement, and the balance from additional financial leverage.<br>► Whilst the results vary over time, the component of the gross return from PE strategic and operational improvement has increased in recent years. | 49–50 |

In aggregate, the portfolio companies under PE ownership have shown positive absolute growth in investment, productivity, revenue and, experienced strong YoY growth in trading, employment and productivity measures in the last financial year. We would assume that this in-year performance will have been impacted by post COVID-19 recovery.

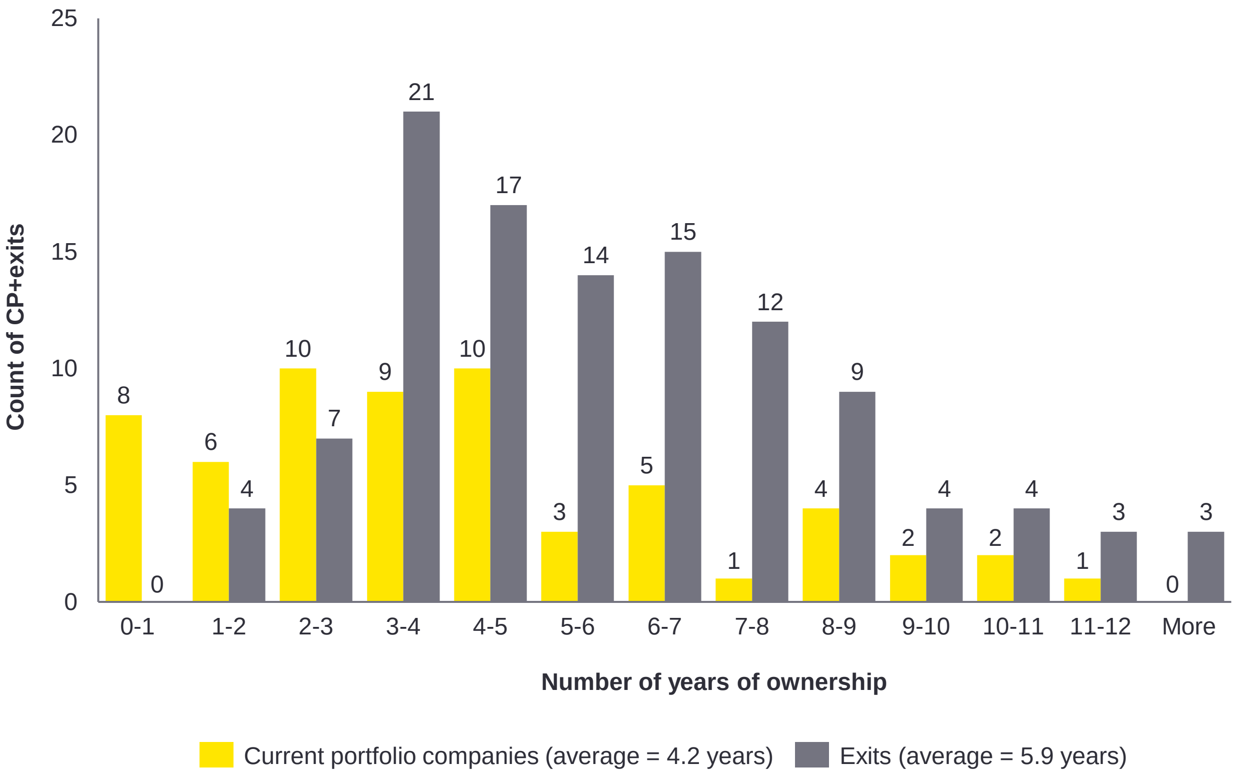
The portfolio companies outperformed the benchmark comparatives for YoY measures of revenue growth, growth in employment, compensation and labour productivity (measured by GVA per employee), i.e. when comparing FY21 vs. FY20 across these metrics.

# 3 Detailed findings

# How long does PE invest in the portfolio companies?

The average timeframe of PE investment in the portfolio companies which have exited is 5.9 years, i.e., from initial acquisition to exit. The current portfolio companies have been owned for an average of 4.2 years.

**Distribution of years of ownership of portfolio companies**



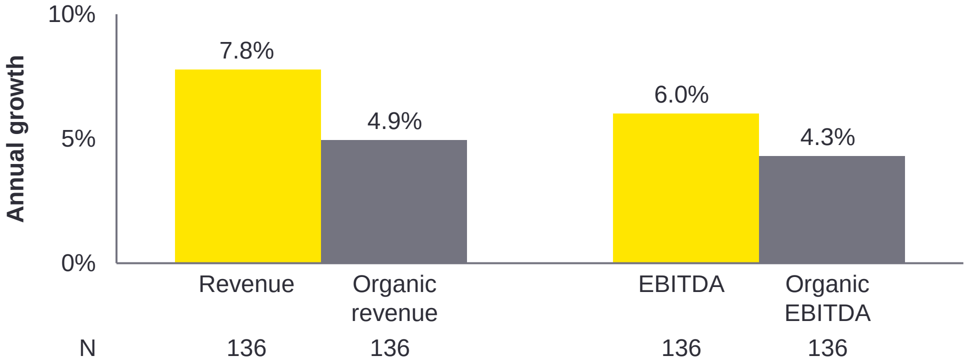

- The PE business model seeks to achieve an investment return to its investors (pension funds, insurance funds, etc.) by realising greater equity proceeds through the sale, and in dividends through ownership of portfolio companies, than its initial equity investment at the time of acquisition.
- The PE business model is long term:
  - For the 113 portfolio companies that have been exited since 2005, the average length of ownership is 5.9 years.
  - For the current group of 61 portfolio companies, the average length of PE ownership is 4.2 years at 31 December 2021.
  - For the portfolio companies exited in 2021, the average hold period was 6.8 (2020: 5.8).
- Looking at the profile of the historical exits as the best measure of the length of PE ownership, of the 113 exits, 90% were owned for more than three years, and 57% were owned for more than five years.

*Note: The data set for most metrics in this report begins in 2007. Additional data for portfolio company exits includes investments realised starting in 2005.*

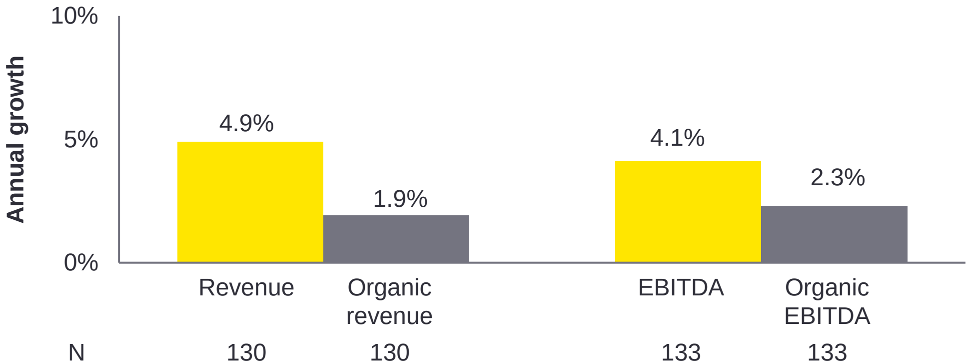
# Do PE-owned companies grow?

The revenue increase since acquisition in the portfolio companies was 7.8% vs. 4.9% in 2020, while EBITDA since acquisition increased at 6.0% vs. 4.1% in 2020.

**Reported and organic revenue and EBITDA growth since acquisition (CP+exits, 2021)**




**Reported and organic revenue and EBITDA growth since acquisition (CP+exits, 2020)**




*Refer to page 74. No changes have been made to underlying data for changes in accounting policies.*

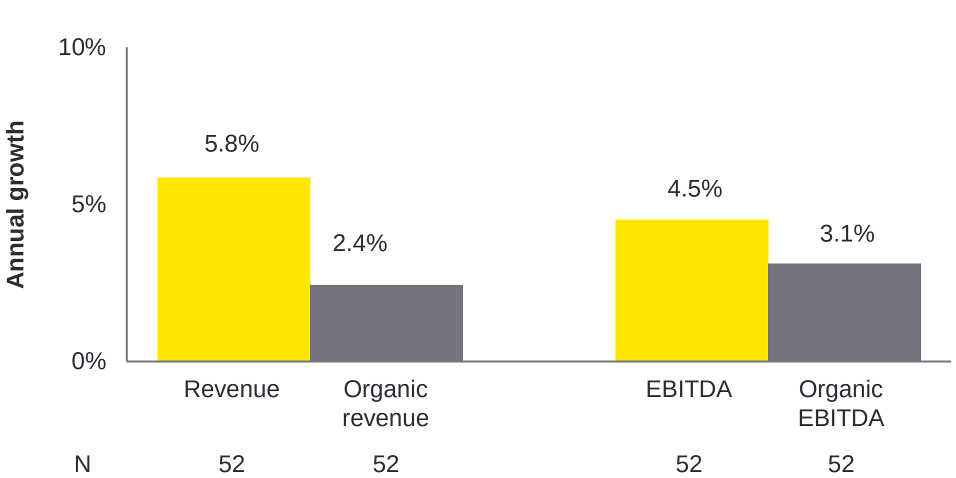
- Reported revenue and profit (EBITDA) CAGR growth over the entire period of private ownership to date is 7.8% for revenue and 6.0% for EBITDA.
- Organic revenue and profit (EBITDA) annual growth rates (excluding the effect of bolt-on acquisitions and partial disposals) is 4.9% and 4.3% respectively. As with other measures, there is variation by sector and within sectors, with the industrials sector showing the highest organic revenue growth rate of 12.6%. The other sectors reflect organic revenue growth rates within a range of c. 2.4% to c. 6.2%.
- The trend differs sightly at a profit level, with the health care sector showing the highest organic EBITDA growth rate since acquisition of 15.8%, whilst the remaining sectors (apart from infrastructure) achieved organic EBITDA growth ranges between c.2% to c.6%.
- Note: Other is largely comprised of financial sector companies.

| Sector | Organic revenue growth (CP+exits) | Organic EBITDA growth (CP+exits) |
|---|---|---|
| Industrials | 12.6% | 6.1% |
| Consumer | 2.4% | 3.1% |
| Health Care | 4.0% | 15.8% |
| Infrastructure | 6.2% | 1.5% |
| Technology | 3.2% | 2.7% |
| Other | 5.3% | 3.9% |

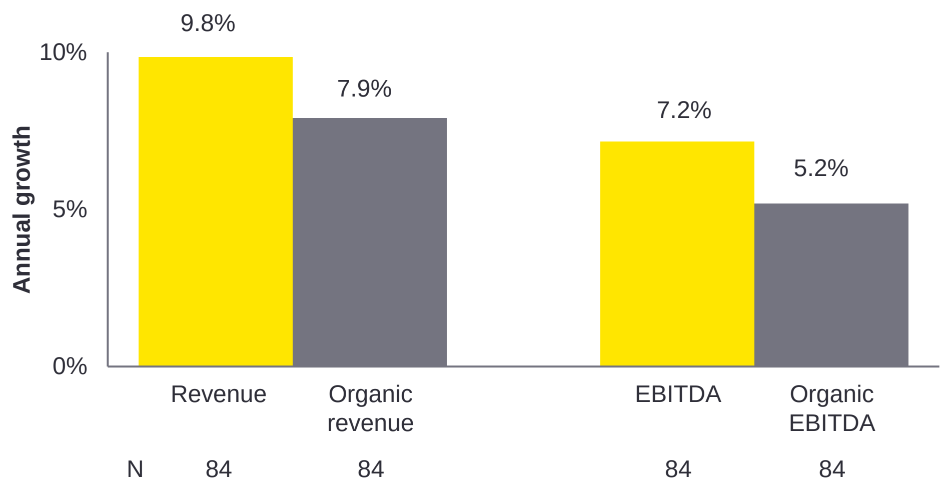
# Do PE-owned companies grow? (cont'd)

Sectors other than consumer (in aggregate) represented higher reported revenue and EBITDA growth than the consumer sector – revenue growth of 9.8% vs. 5.8% and EBITDA growth of 7.2% vs. 4.5%.

**Reported and organic revenue and EBITDA growth since acquisition (CP+exits, Consumer sector, 2021)**




**Reported and organic revenue and EBITDA growth since acquisition (CP+exits, Sectors other than consumer, 2021)**




- Consumer sector reported revenue and profit (EBITDA) annual growth over the entire period of private ownership to date is 5.8% and 4.5% respectively.
- Organic revenue and profit (EBITDA) annual growth (excluding the effect of bolt-on acquisitions and partial disposals) is 2.4% and 3.1% respectively.

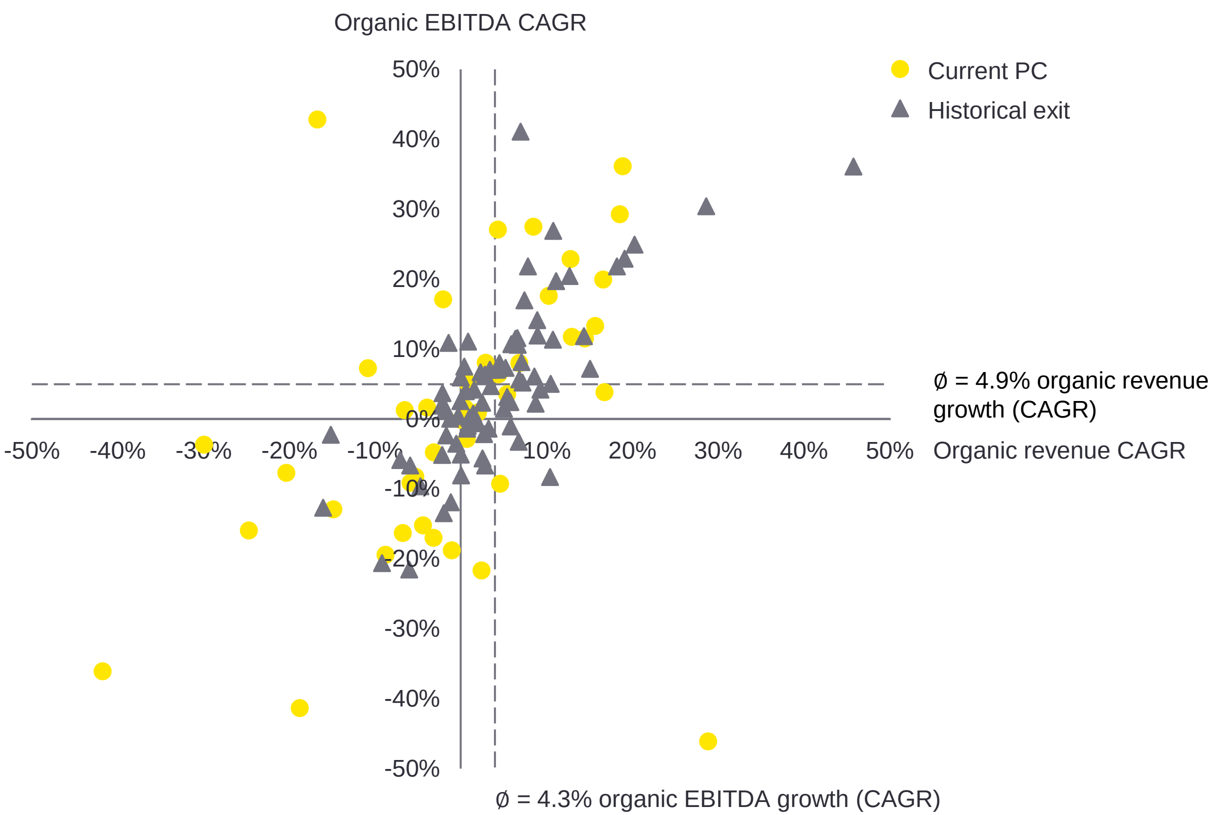
- Sectors other than consumer comprises industrials, health care, infrastructure, technology and other financial sector companies.
- Reported revenue and profit (EBITDA) annual growth over the entire period of private ownership to date is 9.8% and 7.2% respectively.
- Organic revenue and profit (EBITDA) annual growth is 7.9% and 5.2% respectively.

# Do PE-owned companies grow? (cont'd)

At the individual portfolio company level, there is a wide range of performance in organic revenue and EBITDA growth.

**Organic revenue and EBITDA growth by portfolio company since acquisition**

Absolute organic revenue and organic EBITDA growth are measured as the change in organic revenue (or organic EBITDA) from the time of investment to exit or latest date, divided by organic revenue (or organic EBITDA) at the time of investment.

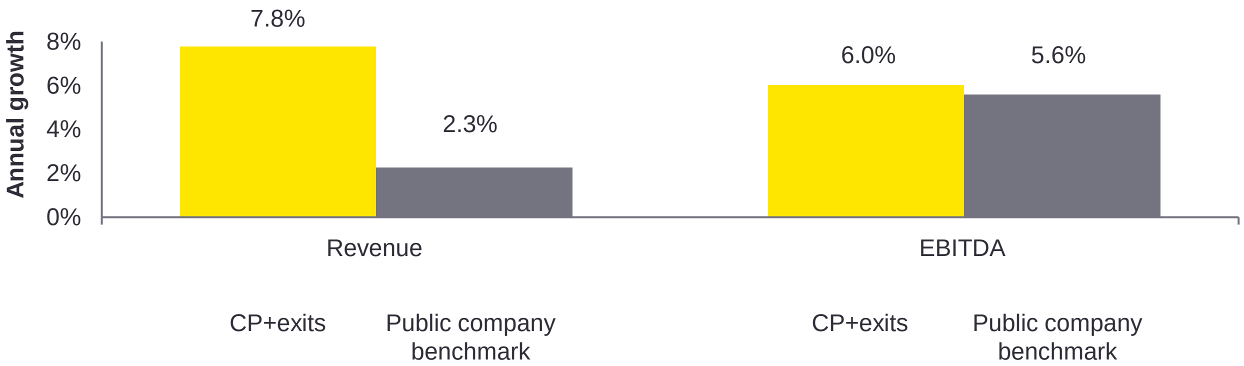



- The chart shows the data points of organic revenue and EBITDA growth for each of the current portfolio companies and historical exits, measured as the CAGR from acquisition to latest date or exit. This shows a wide range of outcomes around the average results, similar to the analysis of organic employment growth by portfolio company.
- Individual portfolio company performance is affected by many factors, external and internal to the business. Not all portfolio companies grow under PE ownership, however some grow very quickly. The findings in this report combine all the data to test aggregated results and to compare them with private and public sector benchmarks.

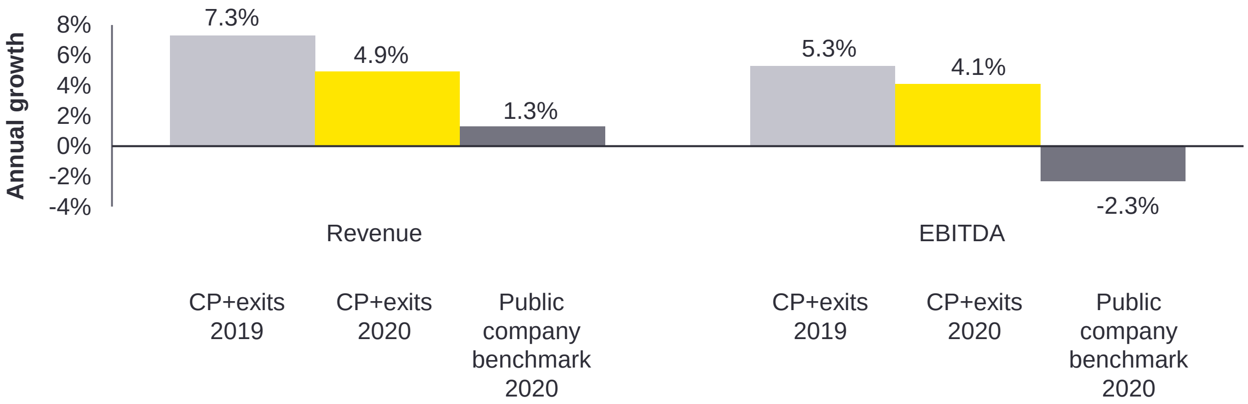
# Do PE-owned companies grow? (cont'd)

Revenue and EBITDA growth in the portfolio companies is comparatively at a higher rate than public company benchmarks – revenue increase of 7.8% vs. 2.3% per annum and EBITDA increase of 6.0% vs. 5.6% per annum.

**Revenue and EBITDA growth since acquisition (2021)**




**Revenue and EBITDA growth since acquisition (2020 and 2019)**

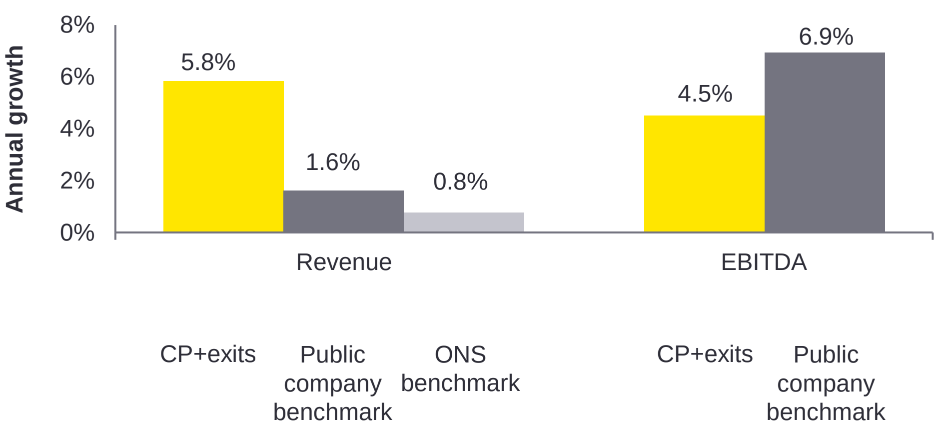



- Reported revenue and profit (EBITDA) performance of the portfolio companies since acquisition outperformed the public company benchmark.
- The long-term (since acquisition) growth rate of portfolio companies in 2021 is more comparable with 2019 levels which reflected revenue growth at 7.3% and EBITDA growth at 5.3%.

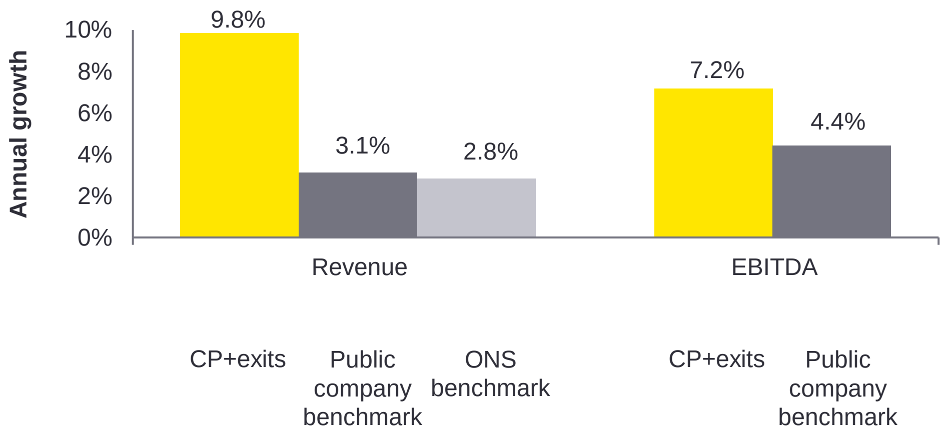
# Do PE-owned companies grow? (cont'd)

Revenue and EBITDA growth in the sectors other than consumer (in aggregate) is comparatively at a higher rate than public company benchmarks; the consumer sector also shows an increase compared to the public company benchmarks for revenue, however EBITDA is below the benchmark.

**Revenue and EBITDA growth since acquisition (CP+exits, Consumer sector, 2021)**




**Revenue and EBITDA growth since acquisition (CP+exits, Sectors other than consumer, 2021)**




- Reported revenue performance of the consumer sector portfolio companies (since acquisition) of 5.8% outperformed the public and private (ONS) company benchmarks of 1.6% and 0.8% respectively.
- Reported EBITDA performance of the consumer sector portfolio companies (since acquisition) of 4.5% is below the public company benchmark of 6.9%.

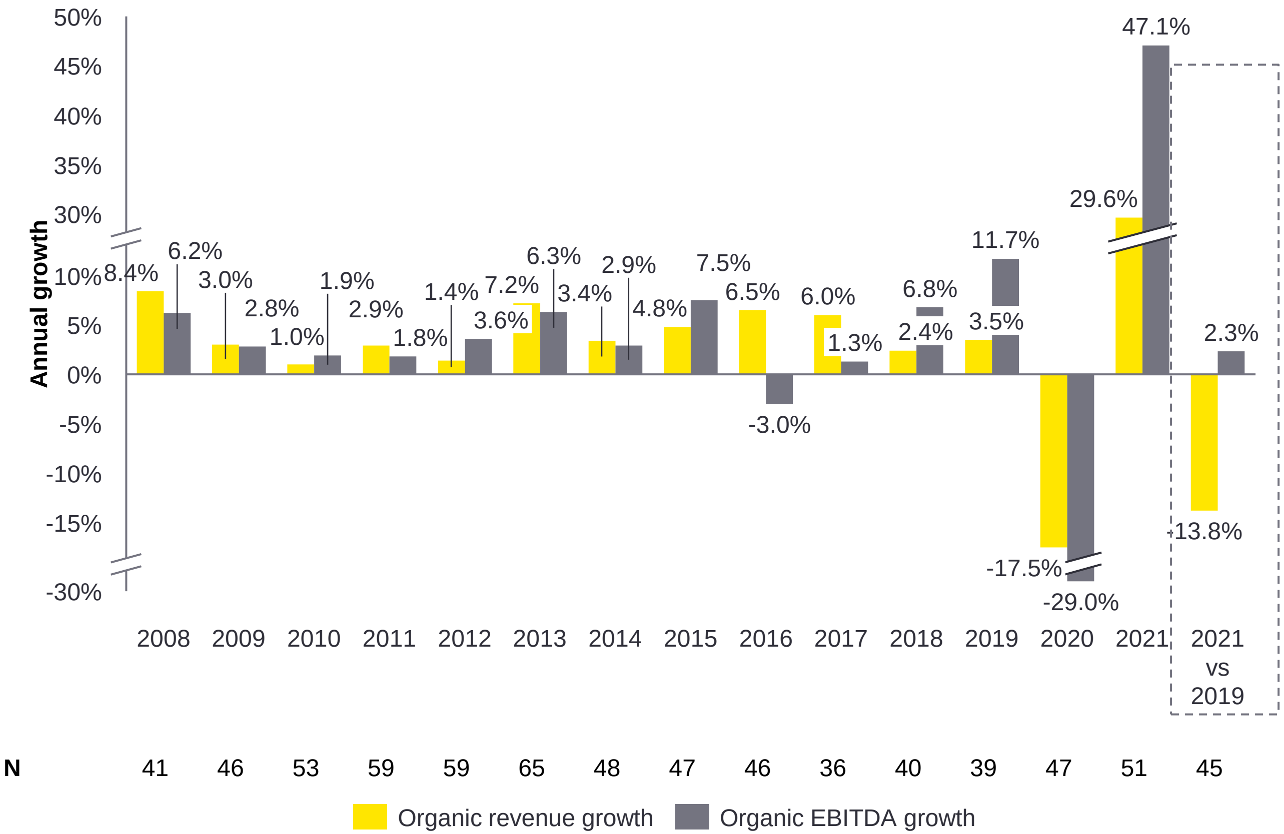
- Reported revenue and EBITDA performance of portfolio companies in the sectors other than consumer outperformed the public and private company benchmarks – Revenue (9.8% vs. 3.1% and 2.8%) and EBITDA (7.2% vs. 4.4%).

*Note: ONS does not track information on EBITDA*

# Do PE-owned companies grow? (cont'd)

The portfolio companies reported a strong YoY growth in organic revenue and profit (EBITDA) in 2021 vs. prior years, likely in part due to the reversal of the impact of the COVID-19 pandemic on businesses in 2020.

**YoY organic revenue and EBITDA growth**



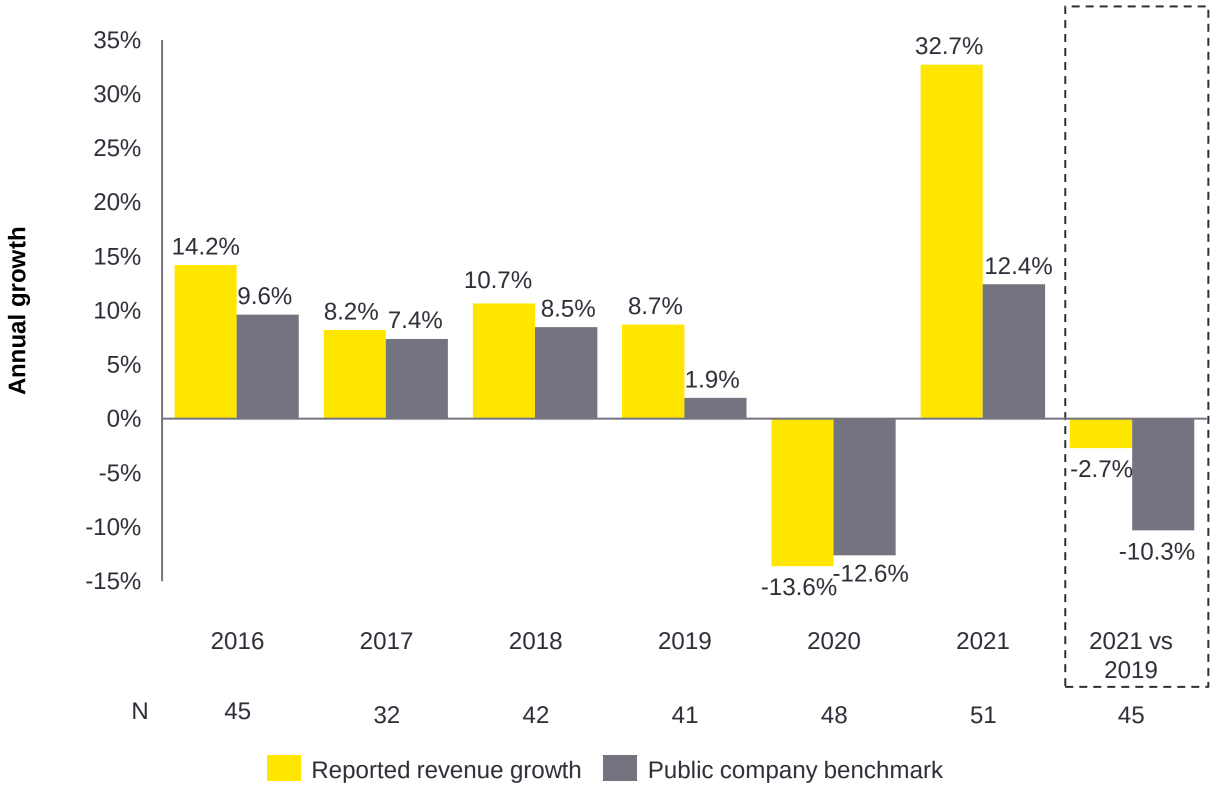

*Note: 2021 vs. 2019 compares the YoY performance of 2019 cohort still present in 2021 (45 PCs)*

- 2021 reflects a strong YoY growth in organic revenue and profit for the current portfolio companies with 29.6% revenue growth and 47.1% profit growth. This is likely in part due to reversal of the COVID-19 pandemic on the businesses in 2020.
- Growth in revenue and profit in 2021 compared with 2019 performance for the same cohort of portfolio companies was (13.8)% and 2.3% for revenue and EBITDA respectively.

# Do PE-owned companies grow? (cont'd)

YoY reported revenue growth of the portfolio companies outperformed the public company benchmark in 2021. Revenue growth of the portfolio companies in 2021 vs. 2019 outperformed the benchmark.

**YoY reported revenue growth of active portfolio companies vs. PLC benchmarks – All sectors**



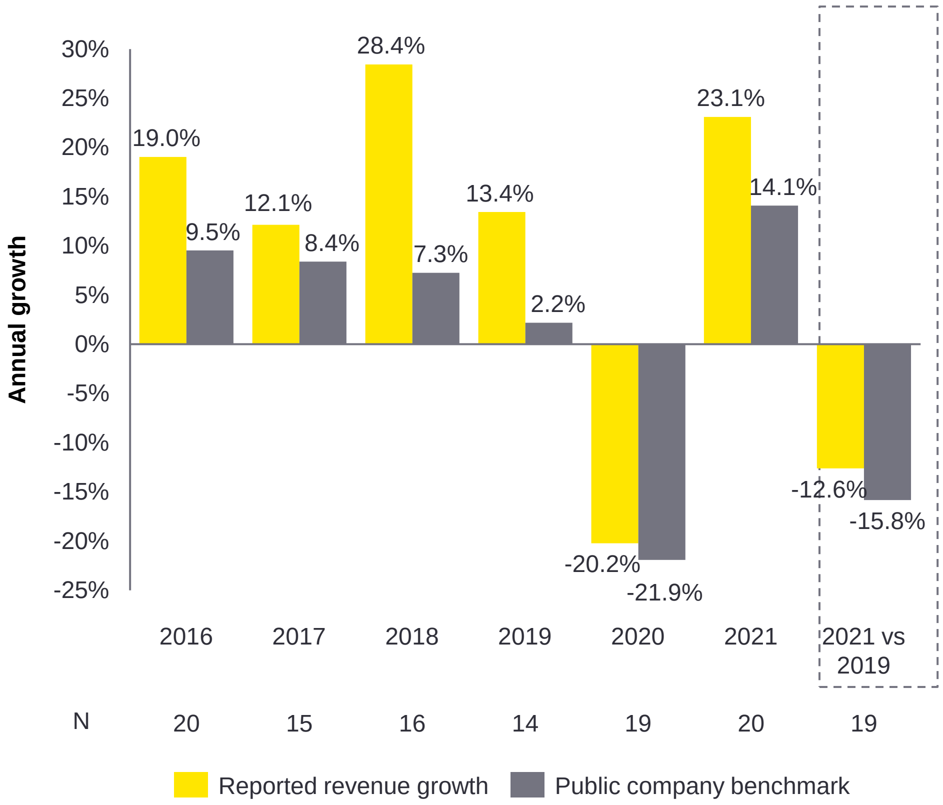

- 2021 reflects a strong YoY growth in reported revenue for the current portfolio companies with 32.7% revenue growth (likely in part due to reversal of the COVID-19 pandemic on the businesses in 2020).
- YoY reported revenue growth of the portfolio companies (32.7%) outperformed the public company benchmark (12.4%) in 2021.
- Growth in reported revenue for 2021 vs. 2019 (2.7%) outperformed the benchmark (-10.3%).

*Note: 2021 vs. 2019 compares the YoY performance of 2019 cohort still present in 2021 (45 PCs)*

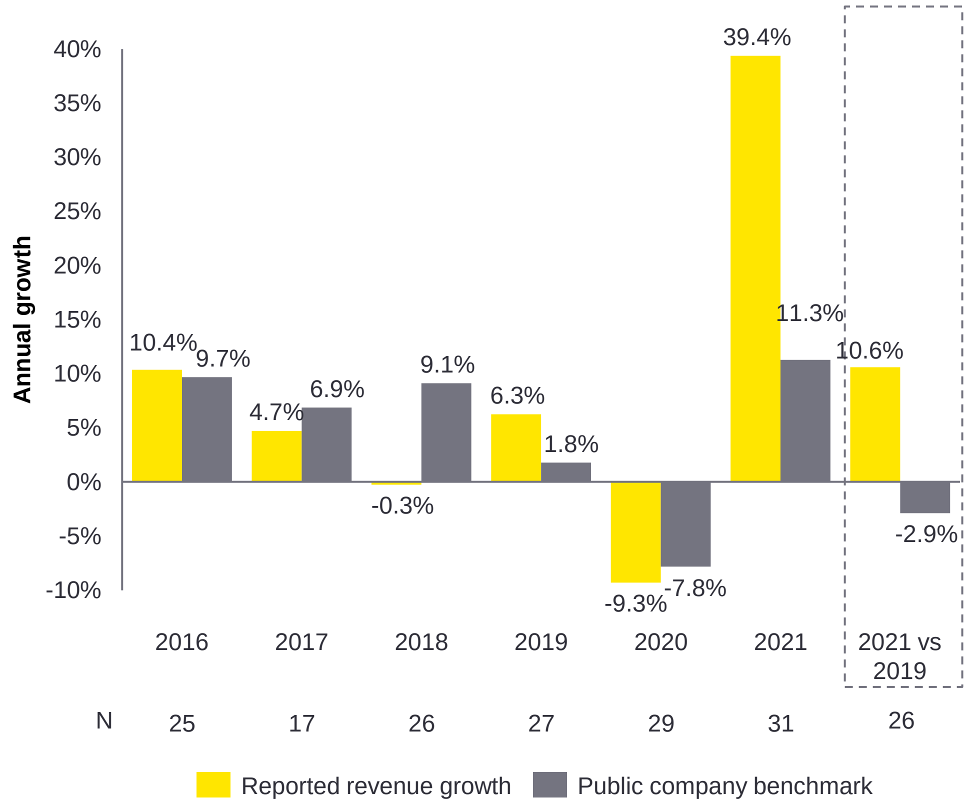
# Do PE-owned companies grow? (cont'd)

YoY reported revenue growth of the portfolio companies in the both consumer sector and sectors other than consumer outperformed the public company benchmark both when comparing 2021 to 2020 and to 2019.

**YoY reported revenue growth of active portfolio companies vs. PLC benchmarks – Consumer sector**




**YoY reported revenue growth of active portfolio companies vs. PLC benchmarks – Sectors other than consumer**

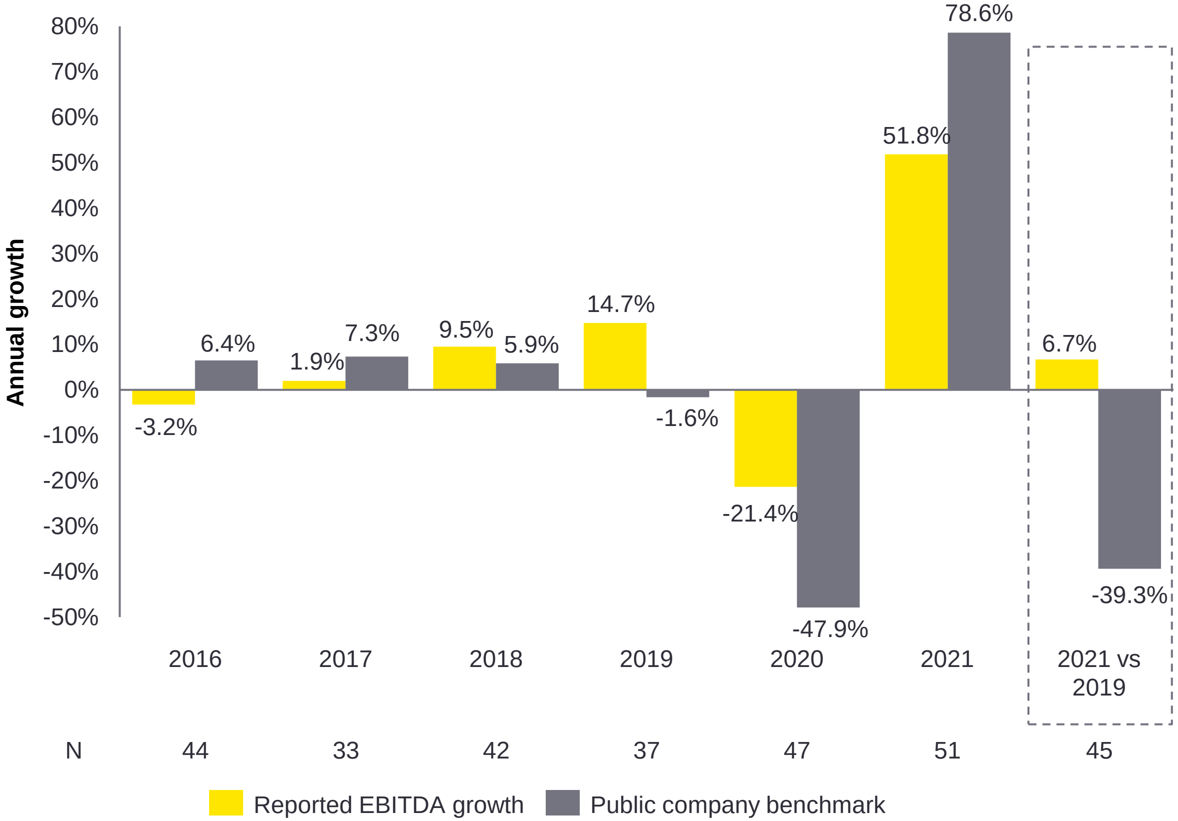



*Note: 2021 vs. 2019 compares the YoY performance of 2019 cohort still present in 2021 (19 PCs in consumer and 26 PCs in sectors other than consumer)*

# Do PE-owned companies grow? (cont'd)

YoY reported EBITDA growth of the portfolio companies underperformed the public company benchmark in 2021. EBITDA growth of the portfolio companies in 2021 vs. 2019 outperformed the benchmark.

**YoY reported EBITDA growth of active portfolio companies vs. PLC benchmarks – All sectors**



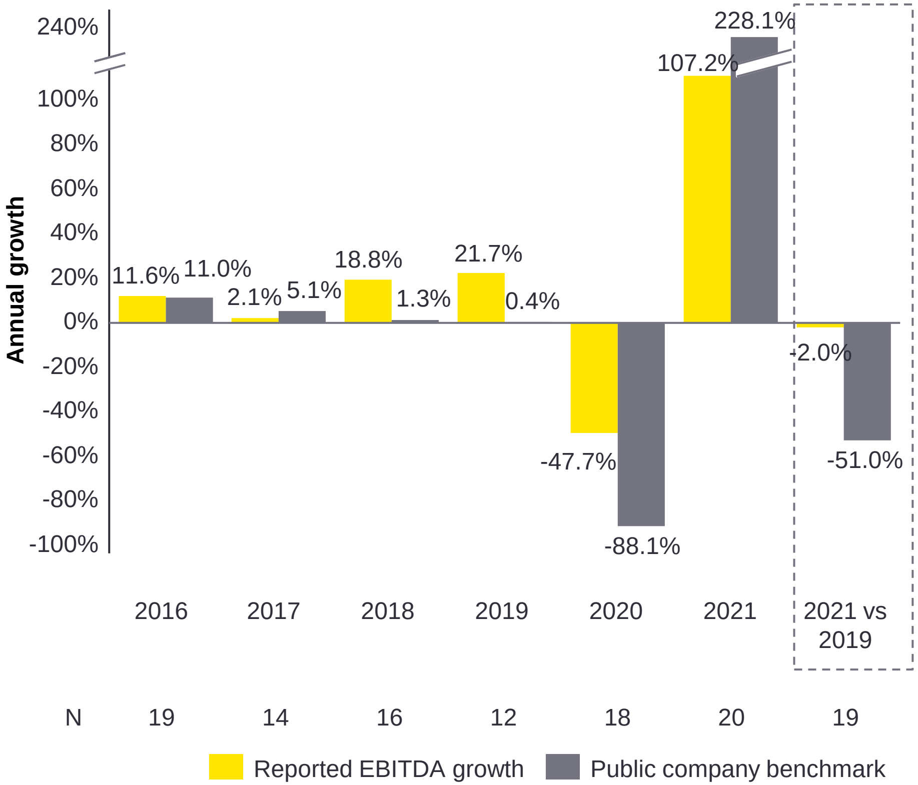

*Note: 2021 vs. 2019 compares the YoY performance of 2019 cohort still present in 2021 (45 PCs)*

- 2021 reflects a strong YoY growth in reported revenue for the current portfolio companies with 51.8% revenue (likely in part due to reversal of the COVID-19 pandemic on the businesses in 2020).
- YoY reported revenue growth of the portfolio companies (51.8%) underperformed the public company benchmark (78.6%) in 2021.
- Growth in reported revenue (6.7%) outperformed the benchmark (-39.3%) in 2021 vs. 2019.

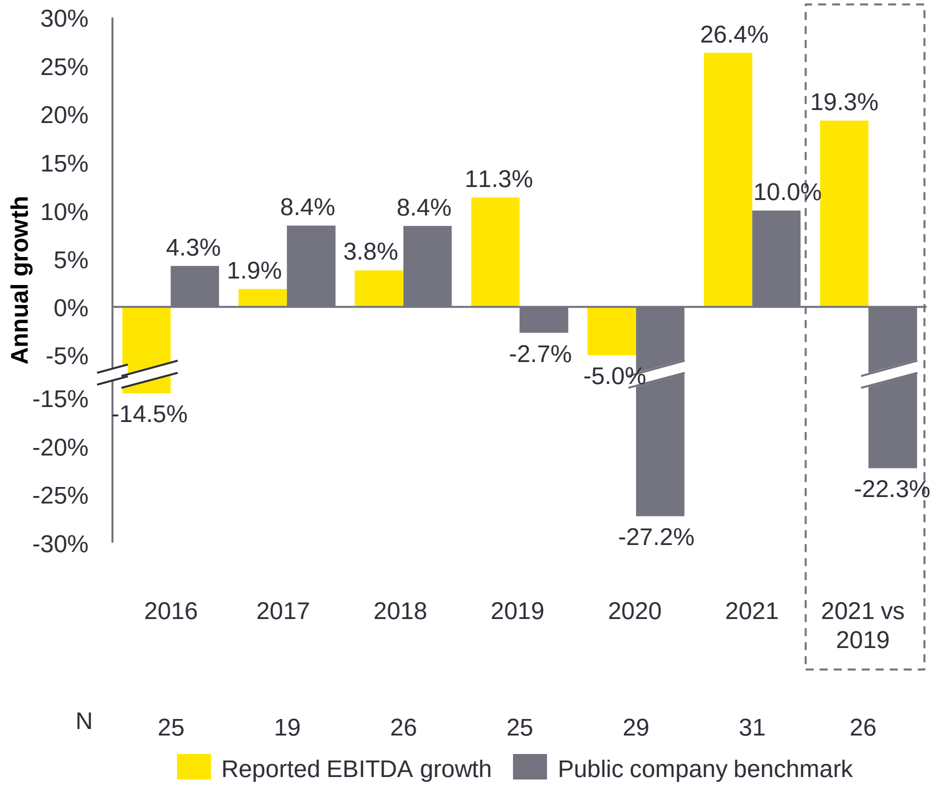
# Do PE-owned companies grow? (cont'd)

YoY reported EBITDA growth of the portfolio companies in the consumer sector underperformed the public company benchmark in 2021, however outperformed the benchmark in the sectors other than consumer. EBITDA growth of the portfolio companies in 2021 vs. 2019 outperformed the benchmark for both the consumer sector and sectors other than consumer (on an aggregated basis).

**YoY reported EBITDA growth of active portfolio companies vs. PLC benchmarks – Consumer sector**




**YoY reported EBITDA growth of active portfolio companies vs. PLC benchmarks – Sectors other than consumer**

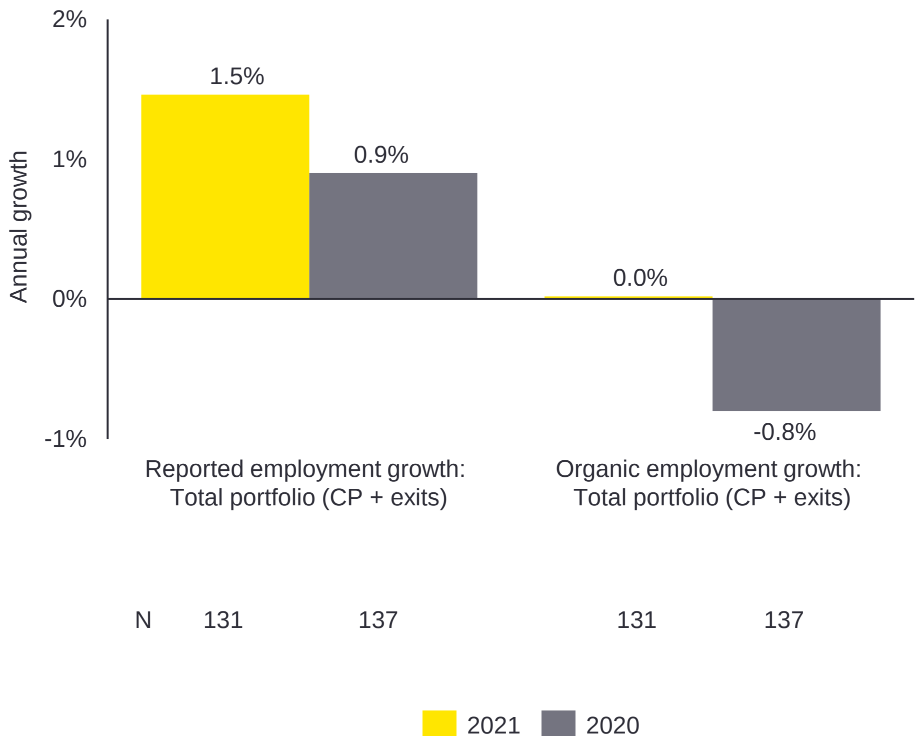



*Note: 2021 vs. 2019 compares the YoY performance of 2019 cohort still present in 2021 (19 PCs in consumer; 26 PCs in sectors other than consumer)*

# Do portfolio companies create jobs?

Reported employment under PE ownership has increased by 1.5% per annum, whilst underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) has stabilised in 2021 (nil growth) in comparison with -0.8% in 2020.

**Reported employment growth and organic employment growth**



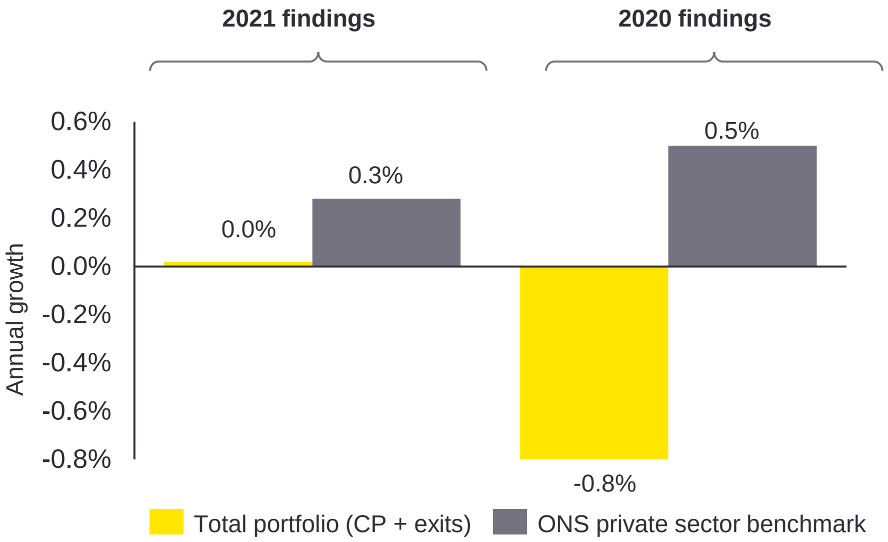

- Reported and organic employment growth of 1.5% and 0.0% reflects the cumulative CAGR of the portfolio companies from acquisition to the date of exit or latest year-end (i.e., latest year-end for current PCs will be 2021).
- Additionally, private data has been obtained from each portfolio company to isolate the effect of bolt-on acquisitions and partial disposals that may distort reported employment trends. The underlying annual organic employment growth rate is 0.0% per annum.
- We note that there are large movements at an individual PC level.
- Organic employment growth differs across sectors, with infrastructure and consumer reflecting the highest long-term growth, health care and other sectors achieving broadly flat organic growth, and industrials and technology experiencing a decline in organic growth since acquisition.

| Sector | Reported employment growth | Organic employment growth |
|---|---|---|
| Industrials | (4.3)% | (1.3)% |
| Consumer | 1.9% | 0.3% |
| Health Care | 1.0% | 0.1% |
| Infrastructure | 2.4% | 0.4% |
| Technology | 6.4% | (0.4)% |
| Other | 2.1% | 0.1% |

# Do portfolio companies create jobs? (cont'd)

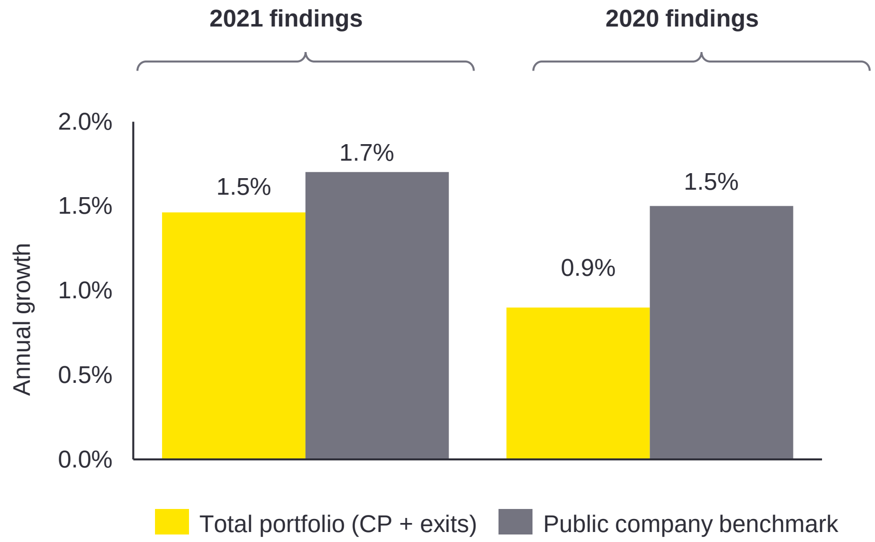
Annual employment growth at the portfolio companies is slightly below the private sector benchmark of 0.3% (organic) and the public company benchmark of 1.7% (reported)

**Organic employment growth vs. UK private sector benchmarks**




- Organic employment growth can be benchmarked to ONS statistics which report on economy-wide employment trends for the UK private sector. The average annual organic employment growth rate of PE-owned companies is 0.0% in 2021 which is below the UK private sector employment growth of 0.3%.

**Reported employment growth vs. public company benchmark**

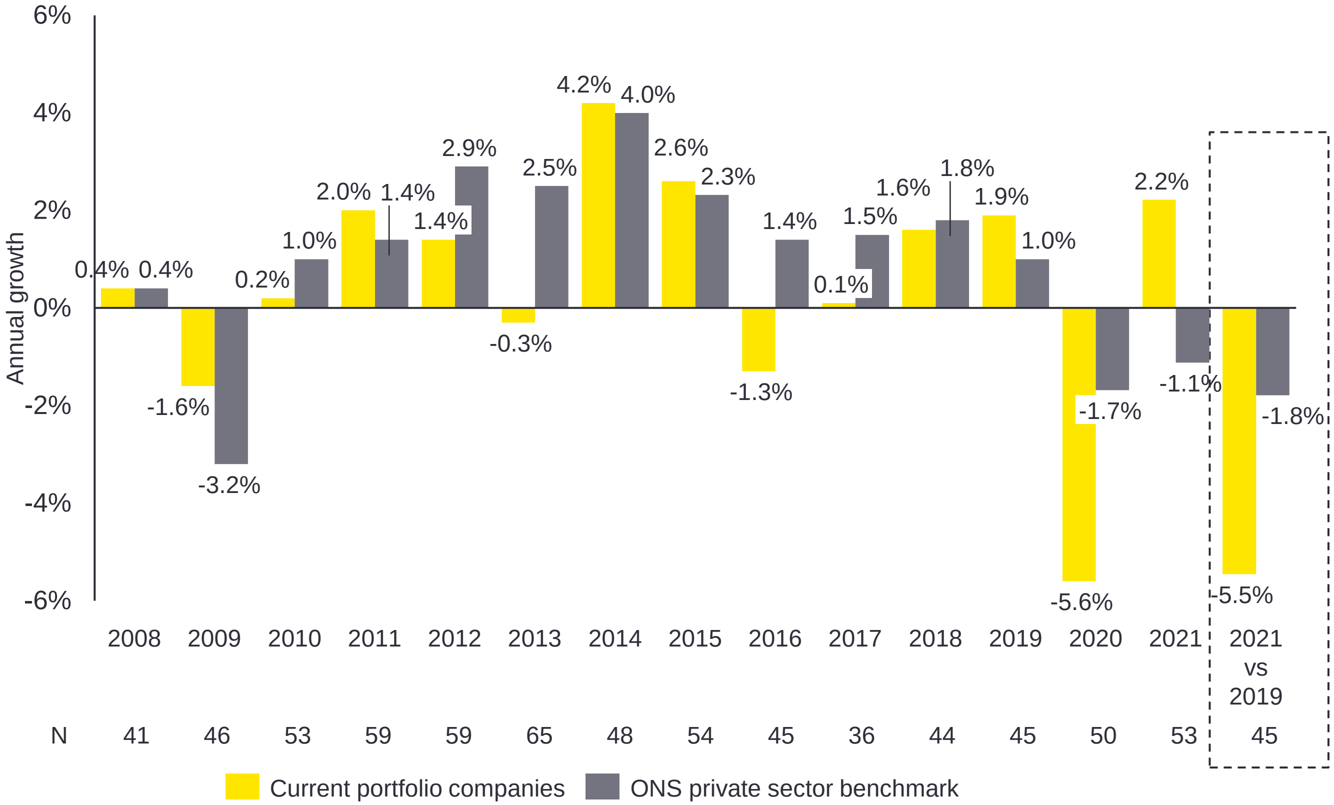



- Reported employment growth figures, as disclosed in annual reports by the portfolio companies and public companies, can also be compared. These figures include the effects of bolt-on acquisitions and partial disposals.
- The reported employment growth of the portfolio companies of 1.5% per annum is slightly lower than the public company benchmark of 1.7% per annum.

# Do portfolio companies create jobs? (cont'd)

YoY organic employment growth in the current portfolio companies in 2021 outperformed the private sector benchmark (at 2.2% vs. -1.1%).

**Organic employment growth, YoY vs. UK private sector benchmark**




*Note: 2021 vs. 2019 compares the YoY performance of- 2019 cohort still present in 2021 (45 PCs)*

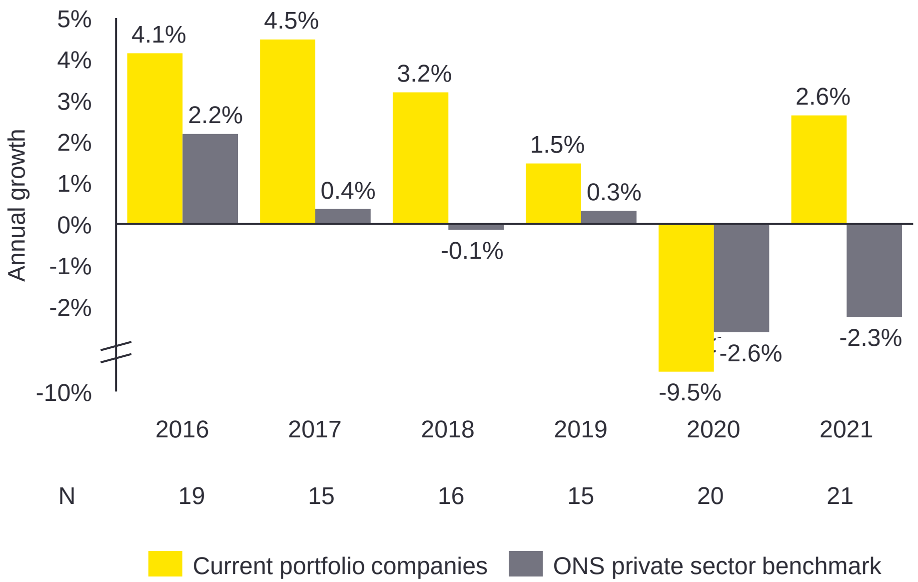
- The year-on-year trend in organic employment growth in 2021 appears to reflect a recovery in organic employment growth after the decline in 2020 likely driven by the impact of COVID-19.
- YoY organic employment growth in the current portfolio companies in 2021 outperformed the ONS private sector benchmark (at 2.2% vs. -1.1%), however growth in 2021 vs. 2019 in the current portfolio companies underperformed the ONS benchmark.
- Organic employment growth of the portfolio companies was broadly consistent across the sectors with the exception of the health care sector.

| Sector | YoY organic employment growth (Current CPs) |
|---|---|
| Industrials | 3.0% |
| Consumer | 2.6% |
| Health Care | (0.3)% |
| Infrastructure | 2.3% |
| Technology | 3.7% |
| Other | 1.6% |

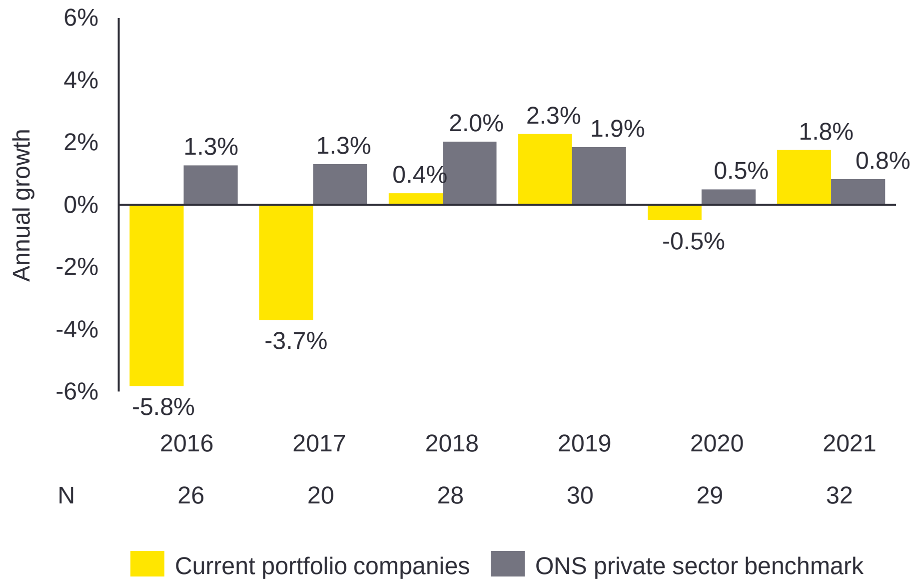
# Do portfolio companies create jobs? (cont'd)

YoY organic employment growth in the current portfolio companies outperformed the private sector benchmark for the consumer sector and sectors other than consumer (in aggregate).

**Organic employment growth, YoY vs. UK private sector benchmark (CP, Consumer sector, 2021)**




**Organic employment growth, YoY vs. UK private sector benchmark (CP, Sectors other than consumer, 2021)**

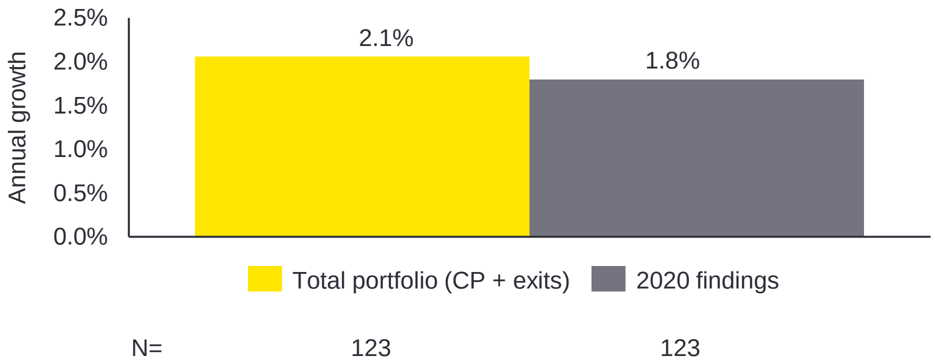



- The year-on-year trend in organic employment growth in 2021 for the consumer sector appears to reflect a recovery in organic employment growth after the decline in 2020 likely driven by COVID-19.
- The consumer and sectors other than consumer portfolio companies outperformed the ONS private sector benchmark in 2021.

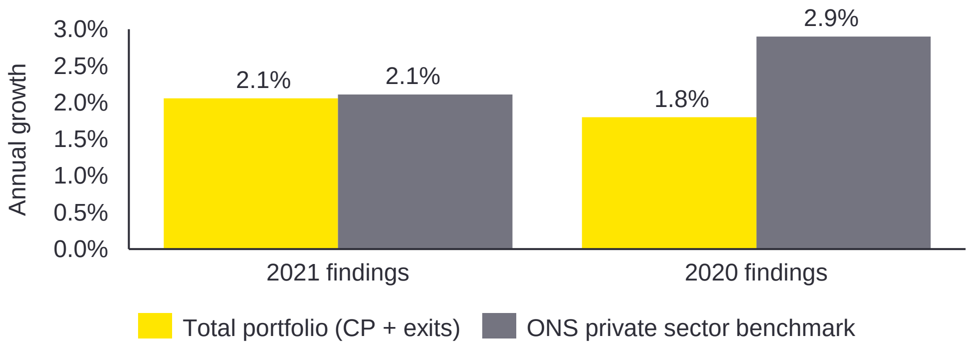
# How is employee compensation affected by PE ownership?

Average employment cost per head in the portfolio companies has increased by 2.1% per annum under PE ownership, which is consistent with the UK private sector benchmark (2.1%) and above the 2020 findings (1.8%).

**Growth in average employment cost per head**




**Growth in average employment cost per head**



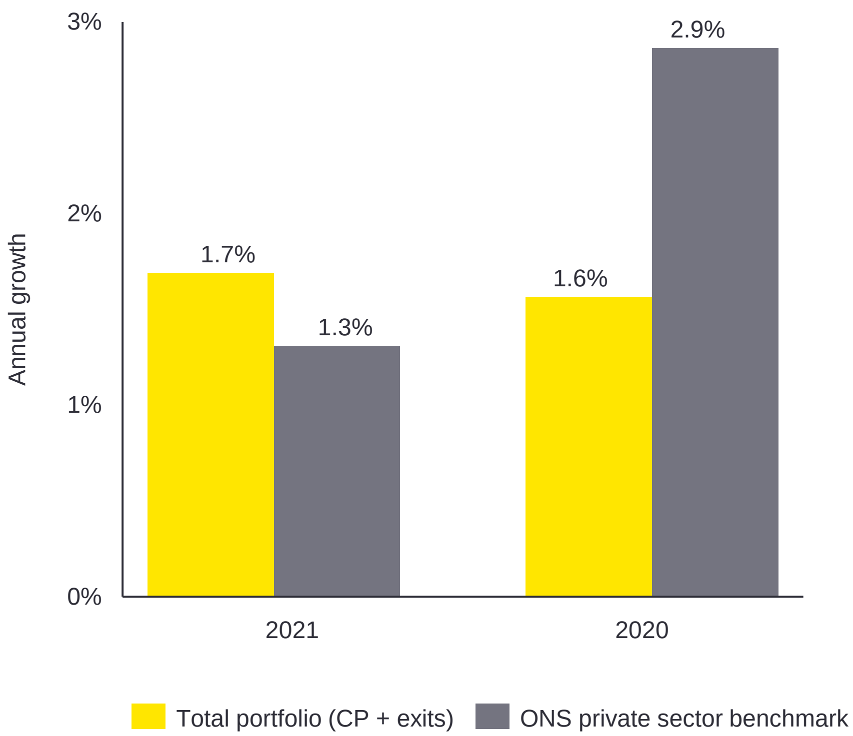

- This report uses average employment cost per head as a measure of employee compensation. It is noted that this metric will not equate precisely to like-for-like change in employee compensation, due to changes in the composition of companies, numbers of employees at differing pay levels and terms, changes in taxes, working hours, bonus schemes, overtime rates and annual base pay awards.
- The average employment cost per head has increased by 2.1% per annum under the entire period of PE ownership, above the 2020 findings of 1.8%.
- The average annual employment cost per head increase of 2.1% in the PE-owned portfolio companies is consistent with the ONS private sector benchmark of 2.1% over comparable time periods.

| Sector | Growth in average employment cost (since acquisition) |
|---|---|
| Industrials | 1.9% |
| Consumer | 1.7% |
| Health Care | 4.0% |
| Infrastructure | 3.0% |
| Technology | 0.6% |
| Other | 3.1% |

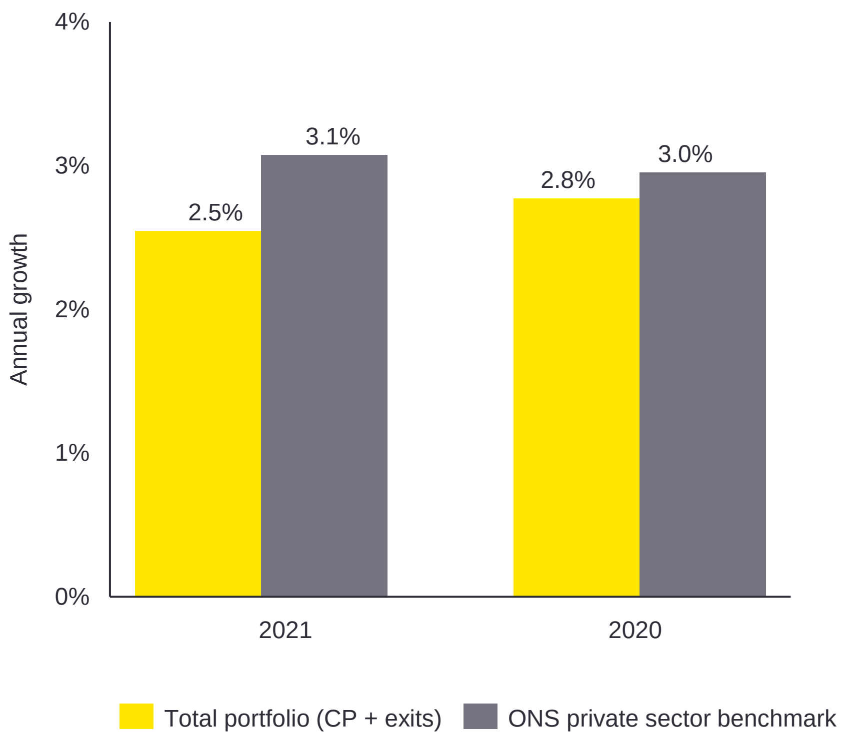
# How is employee compensation affected by PE ownership? (cont'd)

Average employment cost per head for the consumer sector (1.7%) is above the UK private sector benchmark (1.3%), while growth for the sectors other than consumer (in aggregate) (2.5%) is below the UK private sector benchmark (3.1%).

**Growth in average employment cost per head since acquisition (Consumer sector, 2021)**



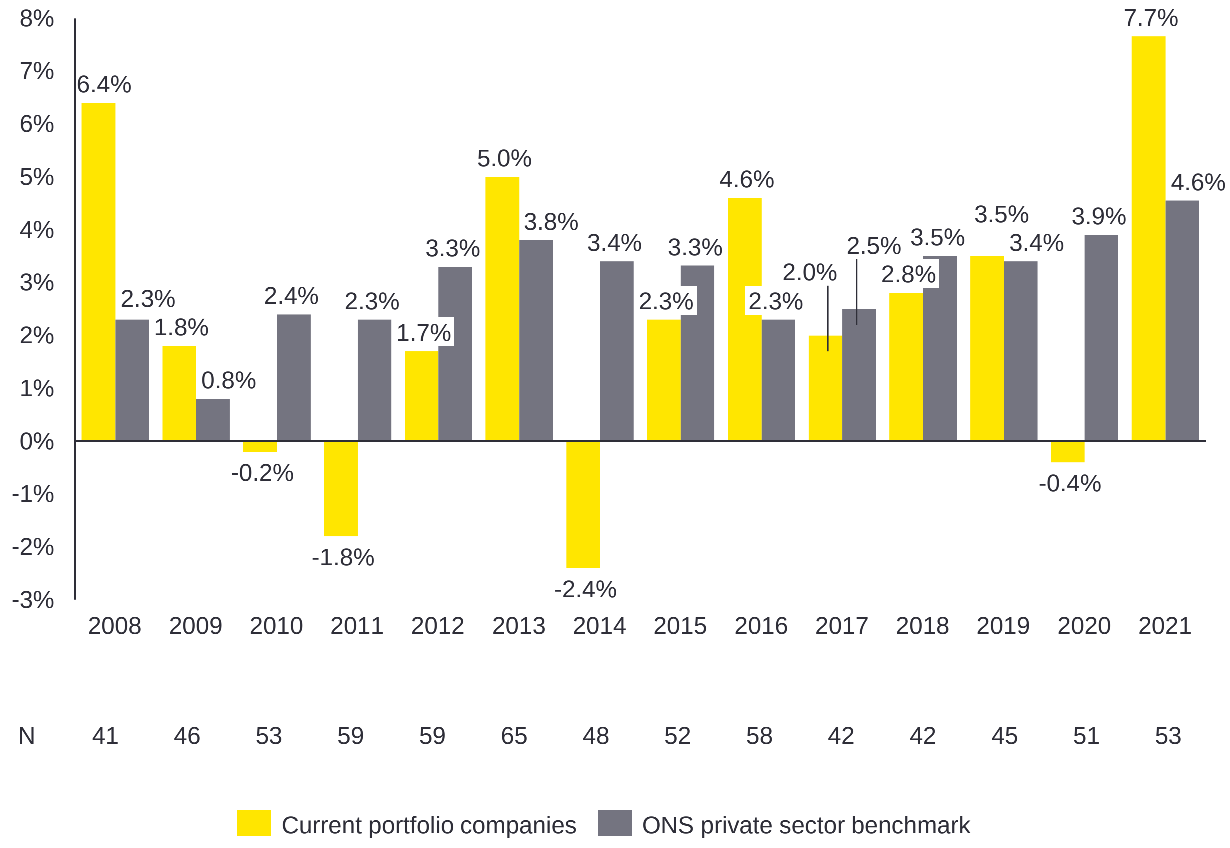

**Growth in average employment cost per head since acquisition (Sectors other than consumer, 2021)**



# How is employee compensation affected by PE ownership? (cont'd)

YoY growth in average employment cost per head is 7.7% in 2021, higher than the year-on-year trend in all previous years of the study and higher than the UK private sector benchmark of 4.6% over the same period.

**YoY average employment cost per head growth**



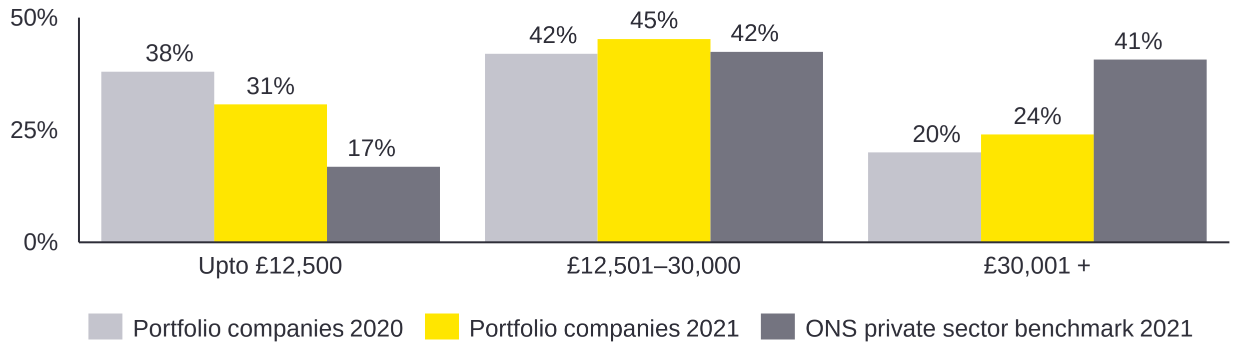

- The year-on-year growth in average employment cost per head for the PCs has exhibited some YoY variability, particularly when compared with the overall stable pattern of average compensation increases in the UK private sector overall since 2009.
- Part of the variability in the portfolio company data is due to changes taking place at one or more portfolio companies in a year that influence the overall result.
- As shown below, there is a wide range of results across the sectors in 2021 for the current portfolio companies, with all sectors except industrials and technology reflecting growth in average compensation per head.

| Sector | 2020/21 growth in average employment cost per head |
|---|---|
| Industrials | (0.6)% |
| Consumer | 13.0% |
| Health Care | 9.8% |
| Infrastructure | 10.6% |
| Technology | (0.9)% |
| Other | 7.0% |

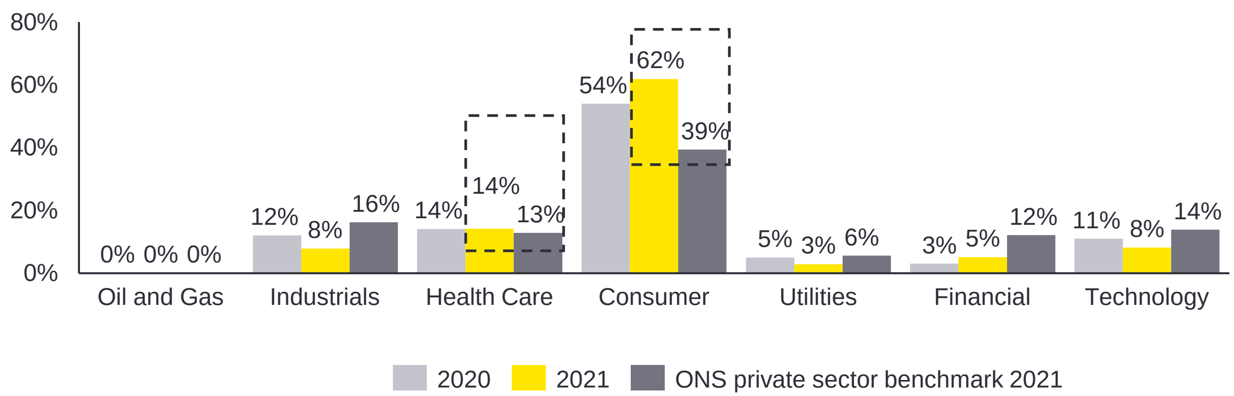
# How is employee compensation affected by PE ownership? (cont'd)

Around 31% of the jobs in the portfolio companies (which will include both part-time and full-time jobs) have an annual compensation of less than £12,500. This is impacted by a high proportion of workers in the consumer and health care sectors.

**YoY average employment cost per head growth**




**Percentage of portfolio company jobs by sector**

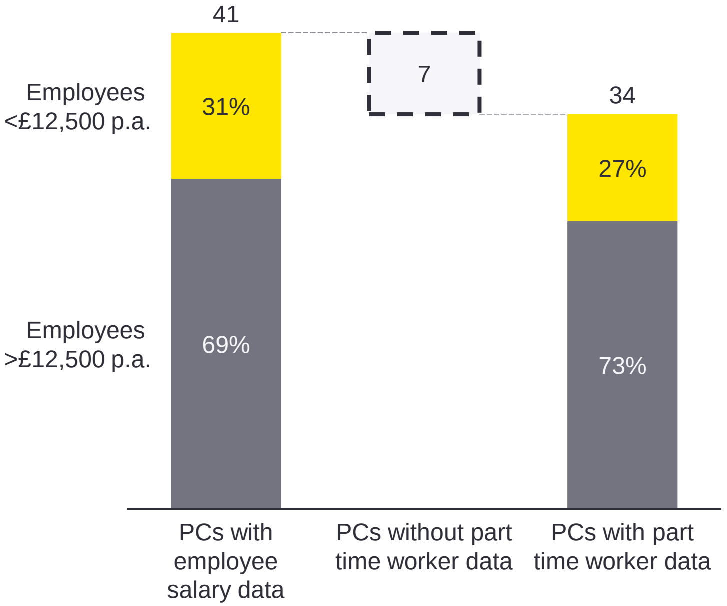



- Data on employment by annual compensation has been requested from the portfolio companies since 2014, to understand employment trends and practices further.
- The portfolio companies have a high portion of jobs earning less than £12,500 per annum 31%, in relation to the UK private sector as a whole where 17% of jobs are in this compensation range.
- Part of the higher portion in the lower compensation range among portfolio companies may be influenced by sector mix, with the portfolio companies over-represented in health care and consumer sector and under-represented in the other sectors. 76% of jobs in the portfolio companies are in the health care and consumer sectors, vs. 52% in the UK private sector, with the health care and consumer sectors having a lower average cost per head compared with the other sectors.
- Another factor driving the lower annual compensation range among portfolio companies may be attributed to the mix of full-time vs. part-time and zero-contract workers. See the following page for further details.

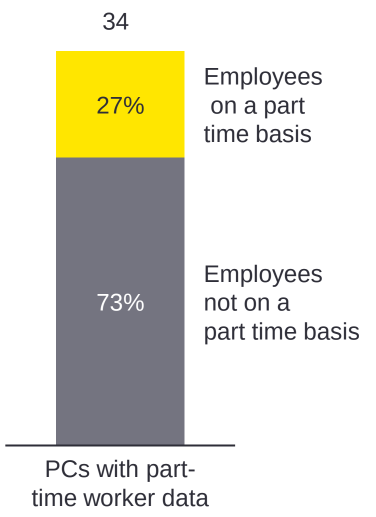
# Are the employees with annual compensation of less than £12,500 mostly on a part-time basis?

Around 27% of the jobs in the portfolio companies which have provided part-time data (34 PCs) have an annual compensation of less than £12,500. 27% of employees in these PCs are employed on a part-time basis.

**Percentage of portfolio company UK jobs by annual compensation band**




**Percentage of portfolio company UK jobs by part-time vs. non part-time basis**

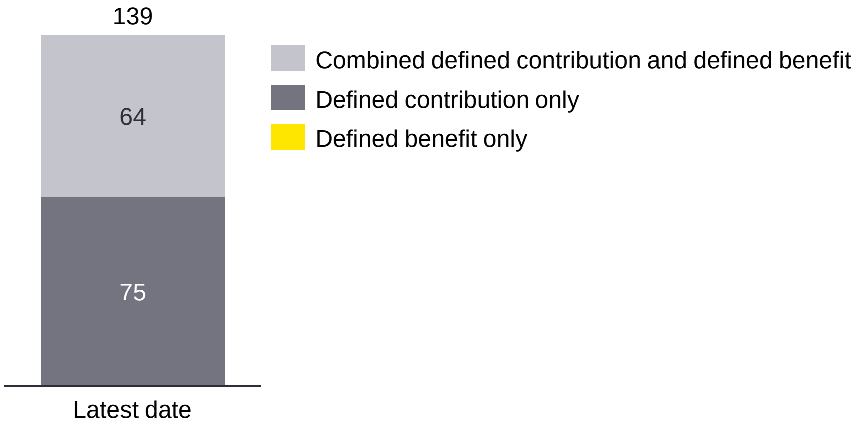



- For the portfolio companies that have provided both annual salary band data and part-time worker data (34 companies), 27% of jobs have an annual compensation of less than £12,500. This compares to 27% of employees (for the same cohort) being employed on a part-time basis.
- This would suggest that part-time workers may be a factor driving the lower annual compensation range among portfolio companies.

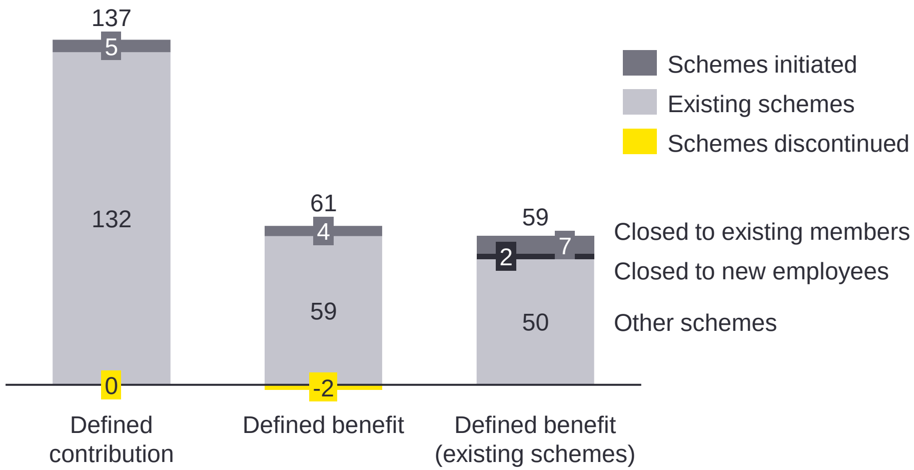
# How is employee compensation affected by PE ownership?

There have been few changes in existing company defined benefit pension schemes under PE ownership; no portfolio companies offer only defined benefit schemes.

**Distribution of companies by type of pension schemes (CP+exits)**




**Changes to pension schemes under PE ownership (CP+exits)**



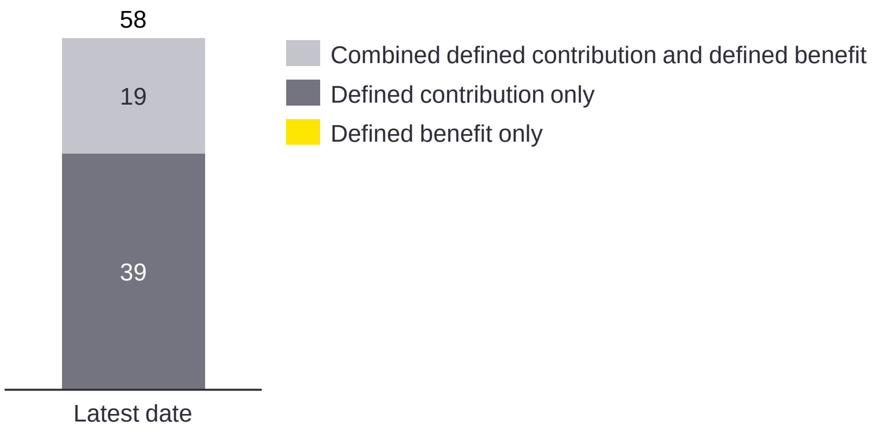

- Of the 146 portfolio companies that have provided pension information, 139 reported that they offer pension schemes to their employees (75 offer defined contribution (DC) schemes only, 64 offer a combination of defined benefit (DB) and DC schemes, and none offers DB schemes only). Two historical exits reported that they did not provide any pension scheme to their employees.
- The Pensions Regulator is responsible for reviewing pension arrangements including at the time of change in ownership. Of the 64 companies including both DC and DB, 59 companies had a DB scheme in place prior to acquisition, of which 9 sought approval from the regulator at the time of their investment.

- Under PE ownership, there have been changes to portfolio company pension schemes:
  - At 5 portfolio companies, new DC schemes have been initiated. In the case of 2 portfolio companies, this was in part because there was only a DB scheme at the time of acquisition and in the case of 3 portfolio, there was no pension scheme at the time of acquisition.
  - At 4 portfolio companies, new DB schemes have been initiated, and 2 schemes have been closed.
  - Also, 7 DB schemes were closed to accruals for existing members and 2 for new members.
- In 2021, there were minimal changes to pension schemes under PE ownership; 1 portfolio company initiated a DB scheme and no existing DB schemes closed. Refer to the next page.

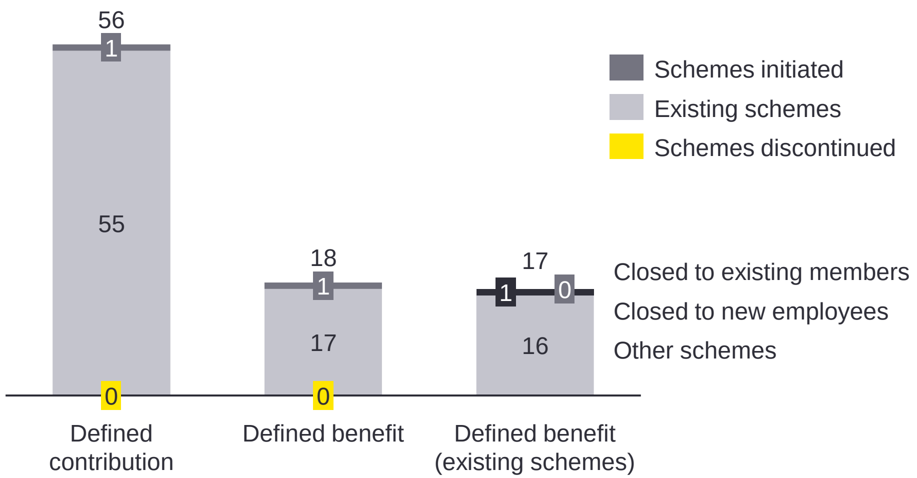
# How is employee compensation affected by PE ownership? (cont'd)

In 2021, there were minimal changes to pension schemes under PE ownership; one portfolio company initiated a DB scheme and no existing DB schemes closed

**Distribution of companies by type of pension schemes (CP)**




**Changes to pension schemes under PE ownership (CP)**



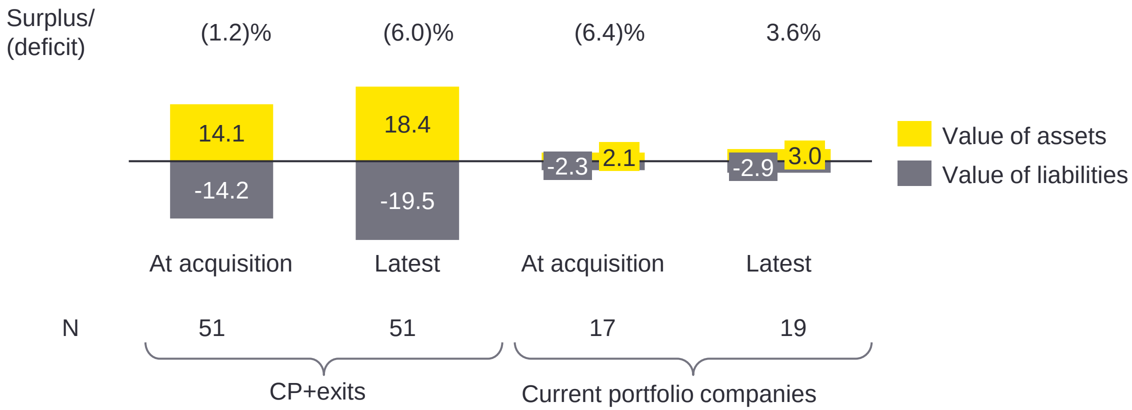

- Of the 60 portfolio companies that have provided pension information, 58 reported that they offer pension schemes to their employees (39 offer defined contribution (DC) schemes only, 19 offer a combination of defined benefit (DB) and DC schemes, and none offers DB schemes only).
- The Pensions Regulator is responsible for reviewing pension arrangements including at the time of change in ownership. Of the 19 companies including both DC and DB, 17 companies had a DB scheme in place prior to acquisition.

- Under PE ownership, there have been changes to portfolio company pension schemes:
- At one portfolio companies, new DB schemes have been initiated.
- Also, one DB schemes were closed to accruals for new members.
- In 2021, there were minimal changes to pension schemes under PE ownership; one portfolio company initiated a DB scheme and no existing DB schemes closed.

# How is employee compensation affected by PE ownership? (cont'd)

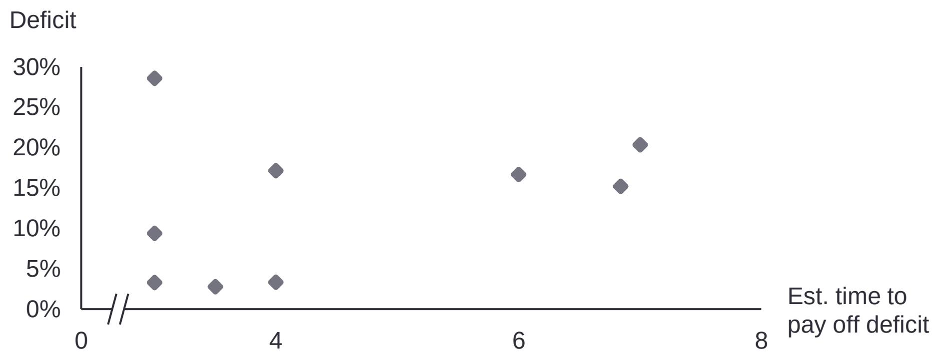
To date, the aggregated value of liabilities of defined benefit schemes of current portfolio companies is lower than value of assets; the average time to pay off the deficit is estimated as 4.5 years, a slight increase from 4.0 years in the 2020 report.

**Defined benefit pension schemes: liabilities/assets over time (£bn)**




- The deficit at latest date of -6.0% is lower than the previous year (-7.5%) and reflects a slightly higher payoff timeline (4.5 years vs. 4.0 years as per the 2020 report).

**Defined benefit pension schemes: time to pay off deficit (CP)**

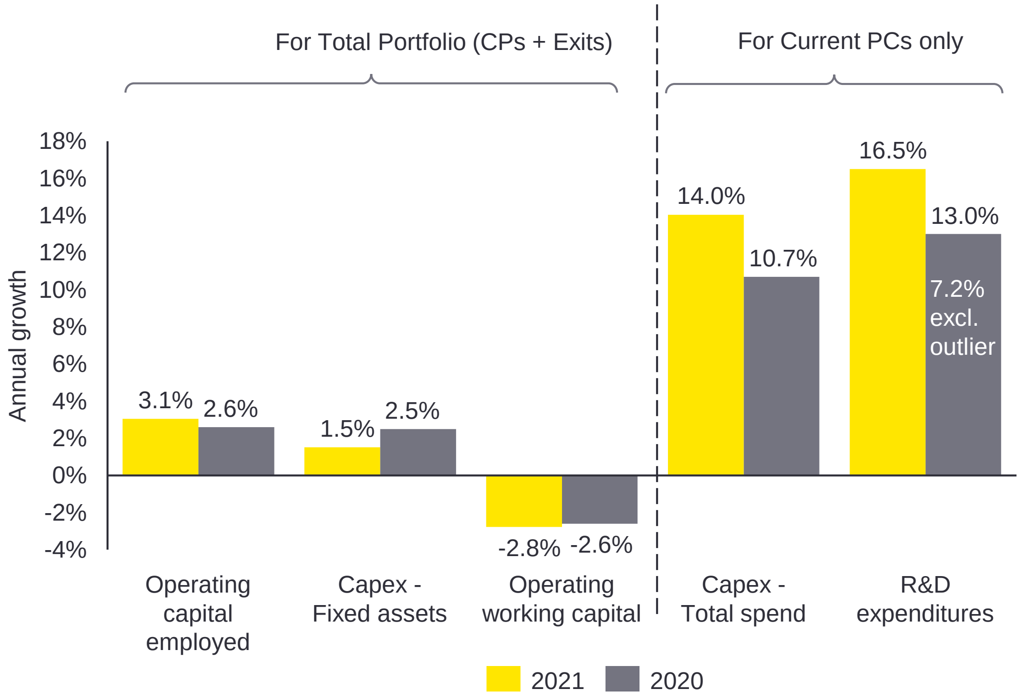



- Of the 19 current portfolio companies offering defined benefit pension schemes, 11 reported deficits:
  - Nine companies reported the estimated time to pay off the deficit, which on average is 4.5 years.
  - Two did not provide detail on estimated time to pay off the deficit, or reported that this was 'under discussion'.

# Do portfolio companies increase or decrease investment?

Investment in operating capital employed at the portfolio companies has increased by 3.1% per annum.

**Growth in measures of investment since acquisition**



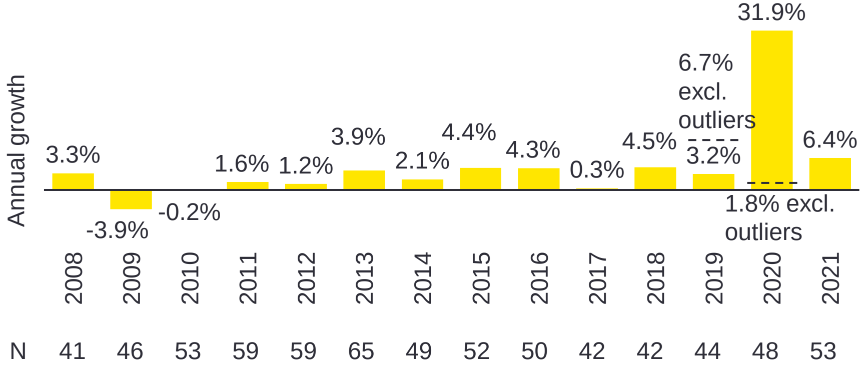

| | | | | | |
|---|---|---|---|---|---|
| **N (2021)** | 121 | 64 | 122 | 54 | 9 |
| **N (2020)** | 127 | 51 | 117 | 47 | 11 |

- There has been growth in all measures of investment (except operating working capital) at the portfolio companies whilst under PE ownership.
- Operating capital employed has for current and exit portfolio companies increased at an annual average rate of 3.1%. This measure comprises growth in tangible fixed assets (property, plant and equipment) and operating working capital (stock, trade debtors and creditors).
- The tangible fixed asset capital expenditure relates to investment in property, plant and equipment, and has increased at 1.5%. Operating working capital has decreased by 2.8% per annum; note that this will be impacted by the working capital profile (and underlying sector/nature) of the portfolio company.
- Total investing activities in current portfolio companies have increased by 14.0%, showing an increase compared with the level of growth in 2020 of 10.7%. This includes all tangible/intangible investments (some of which relate to bolt-on acquisitions).
- Total R&D expenditure increased by 16.5% per annum under PE ownership, though we note the small sample size.

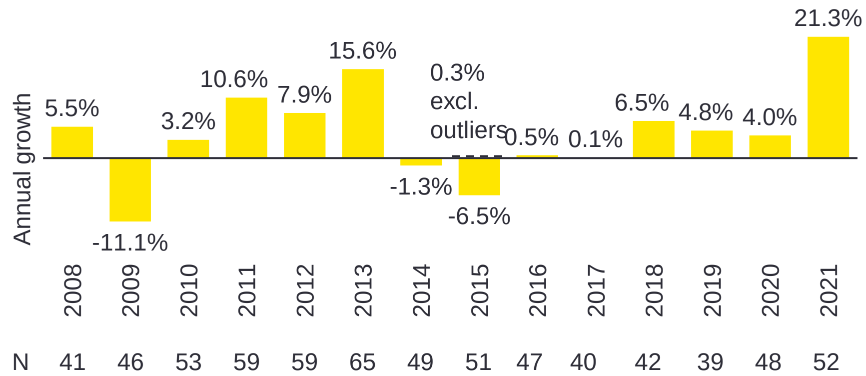
# Do portfolio companies increase or decrease investment? (cont'd)

YoY growth in operating capital employed was 6.4% in 2021, higher than 1.8% (excluding outliers) in 2020.

**YoY growth in operating capital employed**




**YoY growth in capital expenditure on tangible assets**

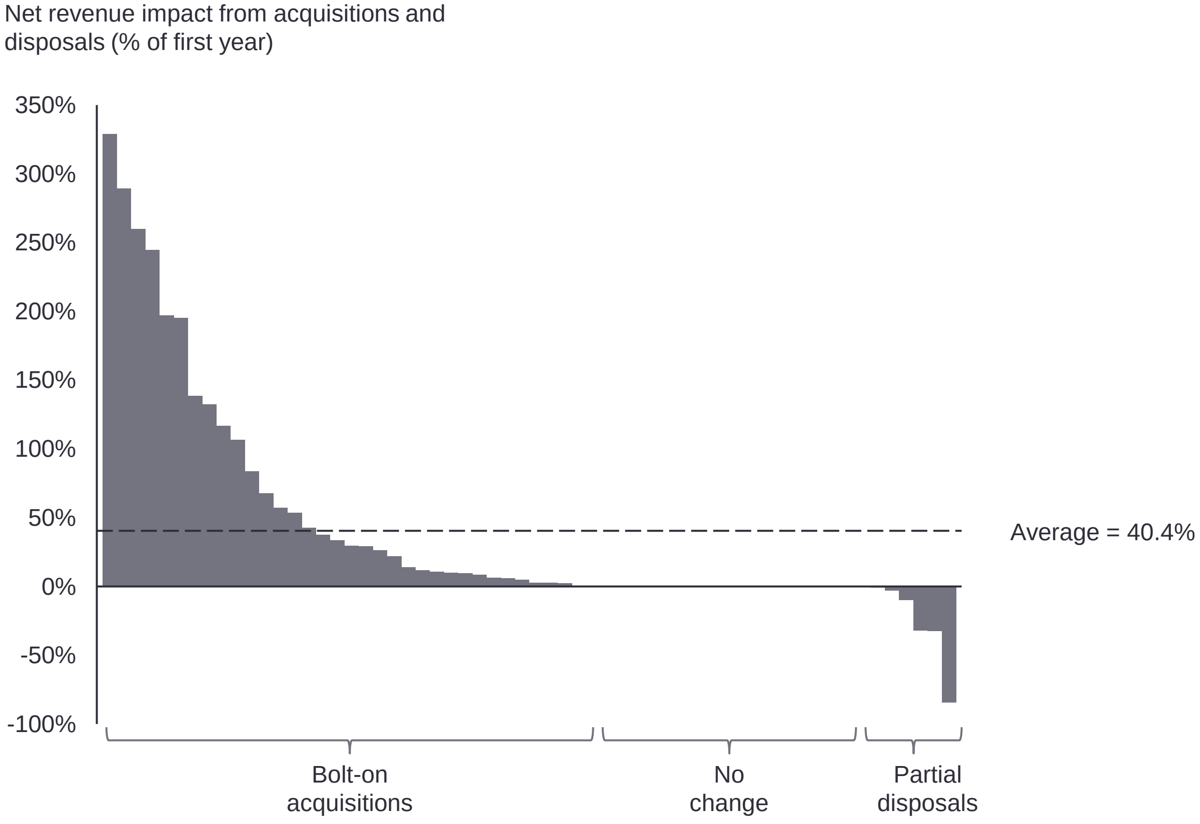



- YoY growth in operating capital employed in 2021 was 6.4%, a significant increase from 1.8% (excluding outliers) in 2020, as 2020 results were likely impacted by COVID-19.
- In 2020, higher growth compared with 2019 is impacted by significant movements in fixed assets in two large portfolio companies. The growth in operating capital employed would be 1.8% when adjusted for these companies, which is more in line with the ratios observed over the historical period.
- YoY growth in capital expenditure in 2021 was 21.3%, an increase from 4.0% in 2020.
- The CAGR of current portfolio companies over the last 14 years is 3.1% for operating capital employed and 1.5% for capital expenditure on tangible assets.

# Do portfolio companies increase or decrease investment? (cont’d)

57% of the current portfolio companies have made net bolt-on acquisitions, whilst 10% have made net partial disposals, showing investment in bolt-on acquisitions ahead of partial disposals.

**Revenue impact of bolt-on acquisitions and partial disposals, current portfolio companies**




- In addition to investment in existing businesses, there has been investment in bolt-on acquisitions, as well as partial disposals. The chart shows an analysis of the relative significance of all bolt-on acquisitions and partial disposals by individual portfolio companies, by measuring the resulting net revenue growth or decline relative to the first year, or base figure.
- Revenue trends for 35 (57%) and 6 (10%) of the 61 portfolio companies under PE ownership include the of impact bolt-on acquisitions and partial disposals respectively. This is in line with the previous year, and thus there is a continued trend in more investment in bolt-on acquisitions than from partial disposals. Twenty portfolio companies (33%) have reported no M&A activity under their current PE owners.
- There are some portfolio companies where bolt-on acquisitions or partial disposals are material in size relative to the original portfolio company. In the current population, ten portfolio companies have made acquisitions that have increased revenue by more than 100%, and one portfolio company has disposed of more than 50% of revenue.

# Do portfolio companies increase or decrease investment? (cont'd)

PE investors, in aggregate, have used free cash flow and additional third-party debt to increase investment in the current portfolio companies.

**Movements in net debt, acquisition to latest date (current portfolio companies)**

| | Net debt (£bn) | Net debt/ EBITDA |
|---|---|---|
| Net debt at acquisition | 33.0 | 6.1 |
| Operating cashflow post tax and interest payments, pre capex | (17.7) | |
| Net funds to equity investors | 8.2 | |
| Capex (organic plus bolt-on acquisitions net of disposals) | 32.0 | |
| Increase/(decrease) in net debt | 22.5 | |
| Net debt at latest date | 55.5 | 7.5 |

*Note: There are a few factors for consideration relating to net debt which represents an accounting measure and includes:*

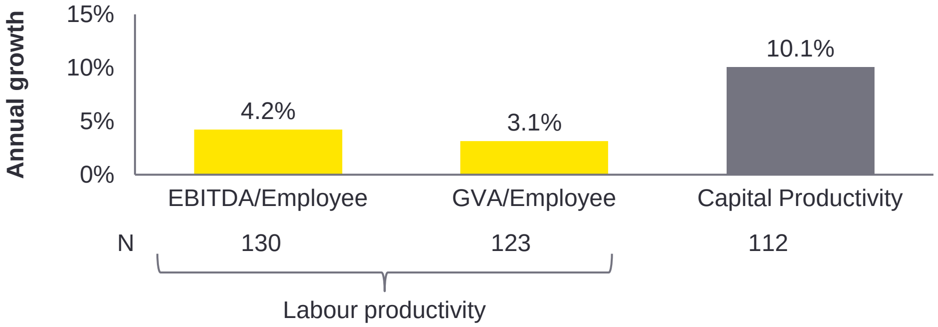
- *In some cases, lease liabilities, specifically financial leases recognised under IFRS 16 which became effective in January 2019.*
- *Debt obtained by consumer finance providers to fund their normal business of consumer lending, which is typically backed by the customer advances book (i.e., trade finance in nature).*

- Analysing the cash flows of the portfolio companies allows scrutiny of the sources and uses of funds during the period of PE ownership.
- Since acquisition, the current portfolio companies have generated £17.7bn of free cash flow, i.e., after most investing, financing and tax payments. These funds could have been returned to investors by paying dividends, or by paying off third- party debt. Whilst there have been payments to equity investors totalling £8.2bn, this has been more than offset by an aggregate additional investment of £32.0bn.
- To fund this investment in the portfolio companies, third-party debt (net debt) has increased by a net £22.5bn. As profit (or EBITDA) has grown in line with net debt albeit slower, the leverage ratio of net debt to EBITDA has increased from 6.1 at acquisition to 7.5 to date.

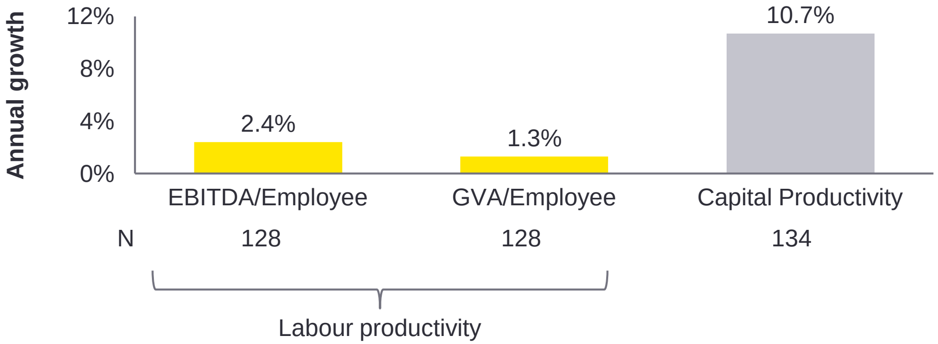
# How does productivity change under PE ownership?

Labour productivity has increased under PE ownership by 4.2% and 3.1% as measured by EBITDA per employee and GVA per employee respectively; and capital productivity has increased by 10.1% per annum respectively.

**Growth in labour productivity and capital productivity since acquisition (CP+exits, 2021)**




**Growth in labour productivity and capital productivity since acquisition (CP+exits, 2020)**



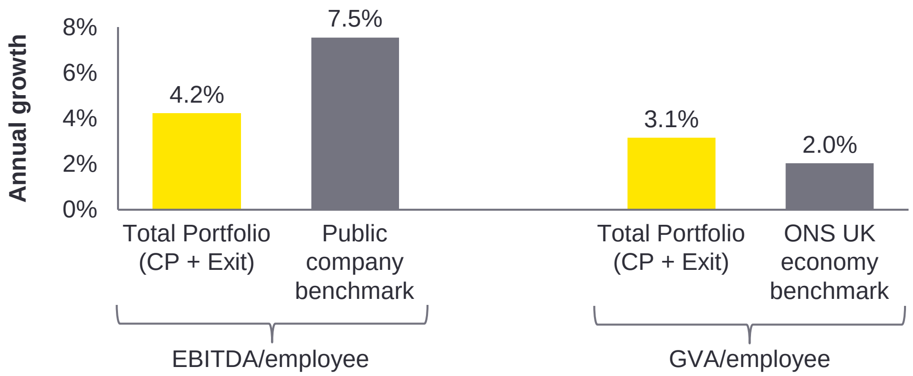

- Economic impact is a function of both changes in productivity and growth in resources. To assess the performance of the portfolio companies on labour productivity, two measures have been analysed:
  - Profit (or EBITDA) per employee, which can be benchmarked to public companies. On this measure, the portfolio companies have increased labour productivity by 4.2% per annum.
  - GVA (gross value added) per employee, which is often used by economists and can be benchmarked to the UK private sector. This is calculated as total EBITDA after adding back total employment cost divided by the number of employees (as reported by portfolio companies). On this measure, the portfolio companies have increased labour productivity by 3.1% per annum.
- Capital productivity is measured as revenue over operating capital employed. The portfolio companies have increased capital productivity by 10.1% per annum.
- Part of the variability in the portfolio company data on a sector basis is due to changes taking place at one or more portfolio companies in a year that influence the overall result.

| Sector | Growth in GVA/employee | Growth in capital productivity |
|---|---|---|
| Industrials | 3.6% | 18.9% |
| Consumer | 3.5% | 19.6% |
| Health Care | 5.0% | 4.3% |
| Infrastructure | 1.7% | (0.2)% |
| Technology | 1.3% | (11.5)% |
| Other | 1.2% | (1.9)% |

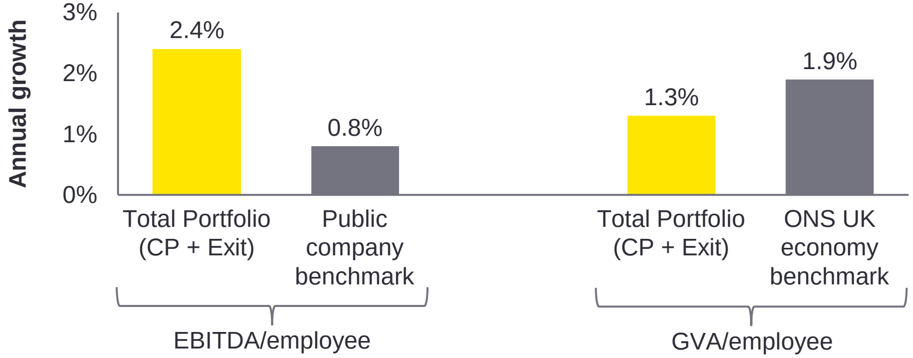
# How does productivity change under PE ownership? (cont'd)

The annual increase in labour productivity in the portfolio companies is between 4.2% and 3.1% in 2021, and is lower than the public benchmarks for EBITDA/employee and higher than the UK private sector benchmark for GVA/employee.

**Growth in EBITDA per employee and GVA per employee since acquisition (2021)**




**Growth in EBITDA per employee and GVA per employee since acquisition (2020)**



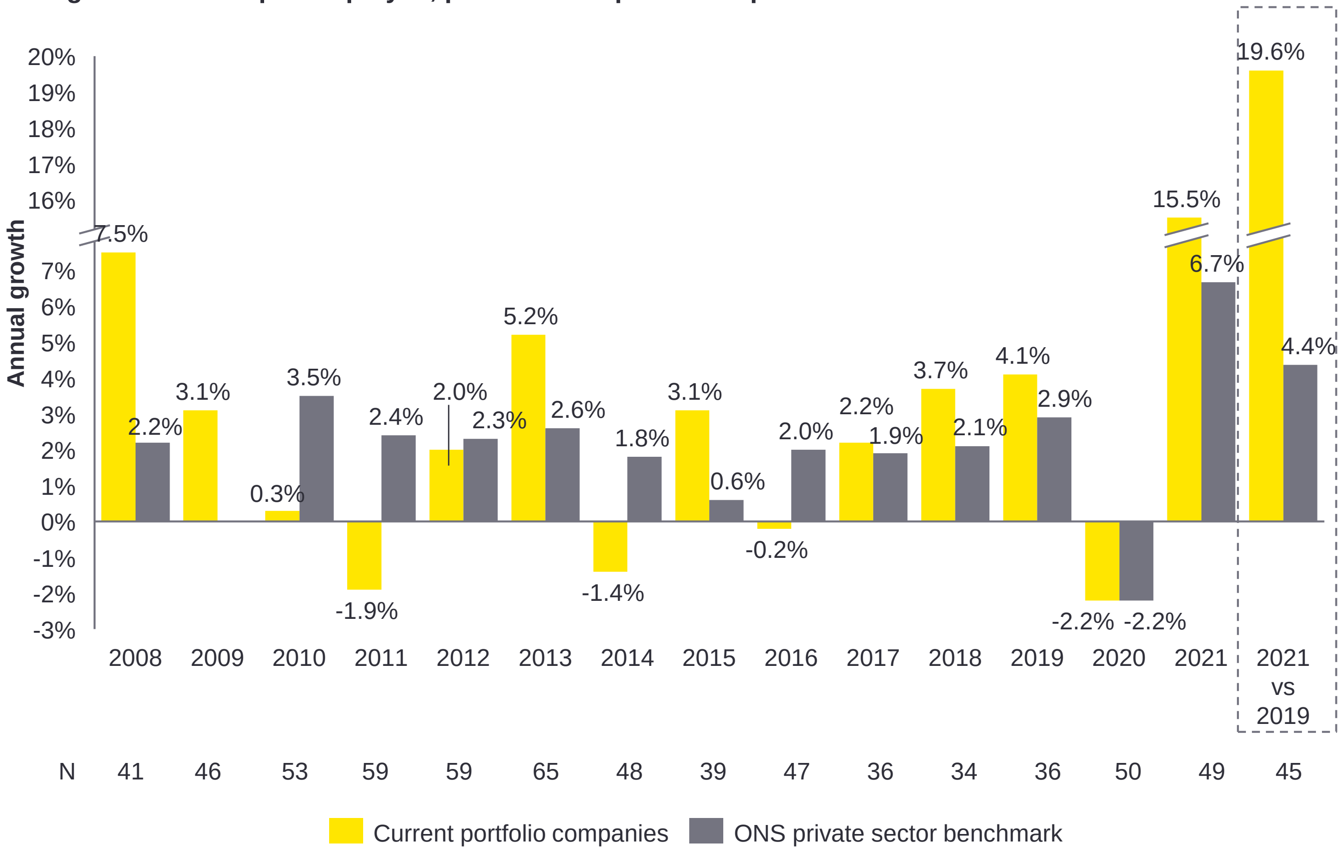

- On the profit (EBITDA) per employee metric, the portfolio companies have seen a lower increase in labour productivity compared with the public company benchmark.
- GVA per employee has increased at a faster rate compared with the ONS UK economy benchmark.
- 2021 findings across both measures for portfolio companies have increased compared with 2020.

| Sector | Growth in EBITDA/employee | Growth in GVA/employee |
|---|---|---|
| Industrials | 9.9% | 3.6% |
| Consumer | 5.0% | 3.5% |
| Health Care | 4.5% | 5.0% |
| Infrastructure | 1.2% | 1.7% |
| Technology | 6.2% | 1.3% |
| Other | 0.0% | 1.2% |

# How does productivity change under PE ownership? (cont'd)

GVA per employee of portfolio companies increased by 15.5% YoY vs. 2020, faster than the UK private sector benchmark.

**YoY growth in GVA per employee, portfolio companies vs. private sector benchmark**



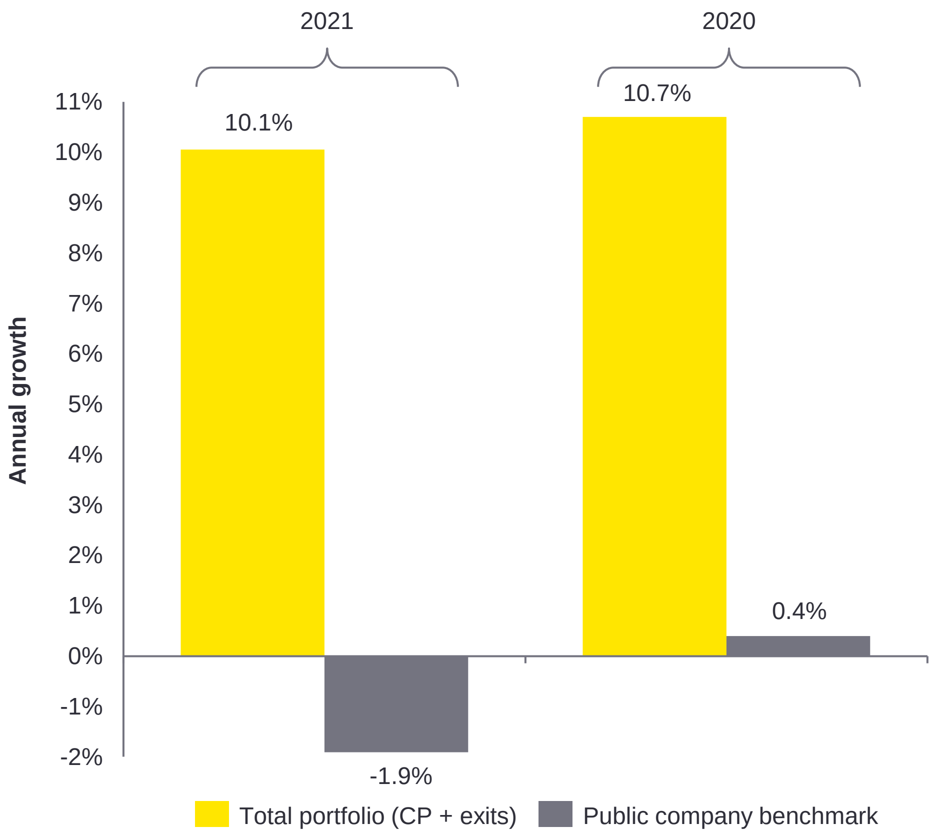

*Note: 2021 vs 2019 compares the YoY performance vs. 2019 cohort still present in 2021 (45 PCs)*

- Labour productivity in portfolio companies increased by 15.5% in 2021, faster than the private sector benchmark growth of 6.7%.
- This increase in labour productivity was driven by the increase in portfolio companies' EBITDA and employment cost in 2021 compared with 2020 (likely to be on account of the reversal of the impact of COVID-19 pandemic on 2020 trading performance).
- As with other measures in this report, the year-on-year growth in GVA per employee varies in the portfolio companies compared with a more consistent trend in the UK private sector benchmark (with the exception of 2020).
- The CAGR for GVA per employee for the total portfolio companies (CP+exits) over the last 14 years is 3.1%.
- Growth in GVA per employee for portfolio companies was 19.6% in 2021 compared with 2019, which outperformed the ONS benchmark at 4.4% over the same period. We note this is on a smaller data set (45 portfolio companies in the 2019 cohort which are still present in 2021).

# How does productivity change under PE ownership? (cont'd)

Capital productivity growth in the portfolio companies exceeds public company benchmarks at 10.1% vs. -1.9% growth per annum.

**Growth in capital productivity since acquisition**

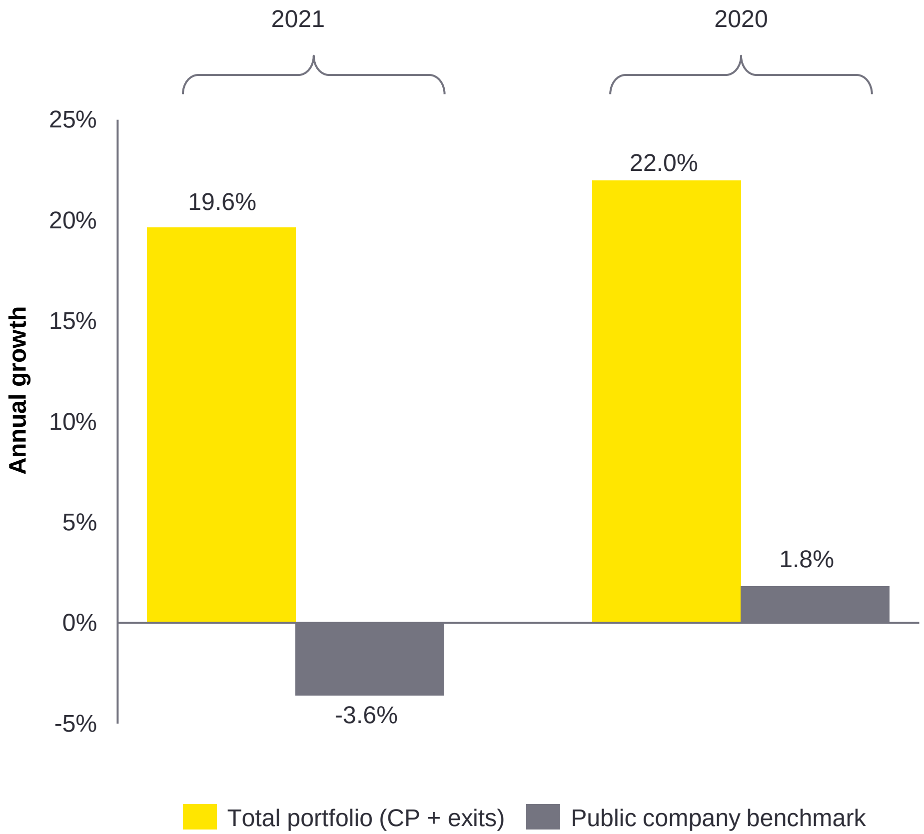



- There is no economy-wide data reported on capital productivity; hence capital productivity growth in the portfolio companies is compared with the public company benchmark. This shows that the portfolio companies have grown capital productivity faster, by 10.1% per annum in 2021 vs. -1.9% per annum in 2021.
- It seems most likely that the portfolio companies have been more effective in generating revenue growth from existing investments compared with the public company benchmark.

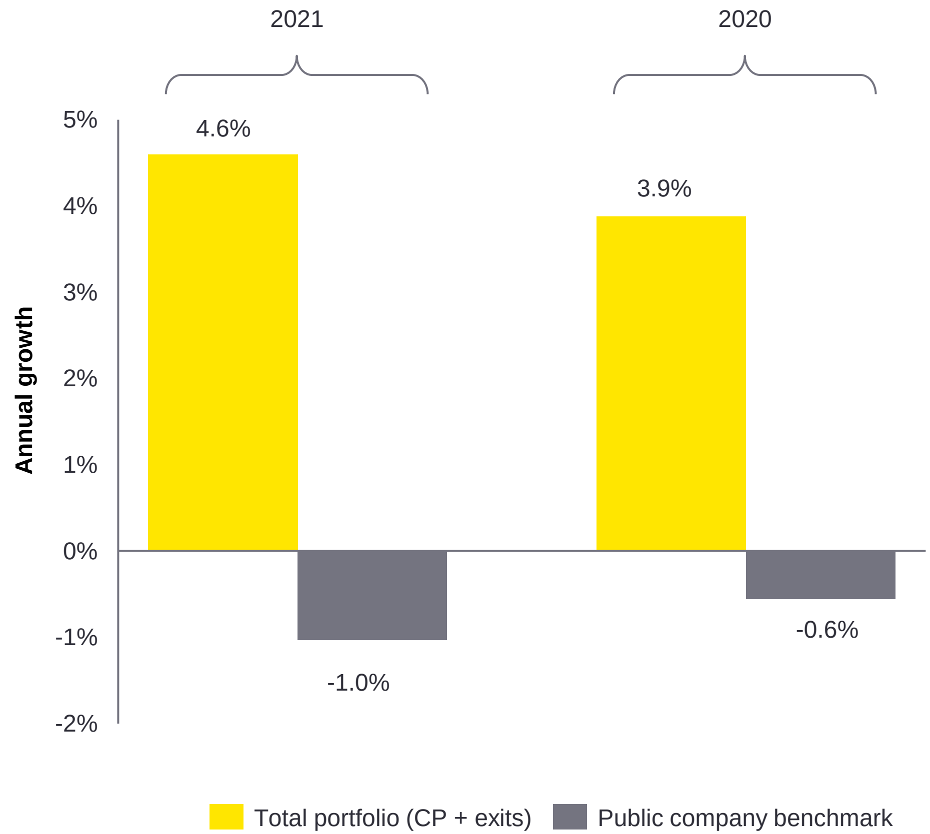
# How does productivity change under PE ownership? (cont'd)

The sectors other than consumer (aggregated) has lower growth in capital productivity (4.6%) than the consumer sector (19.6%) in 2021.

**Growth in capital productivity since acquisition (Consumer sector, 2021)**



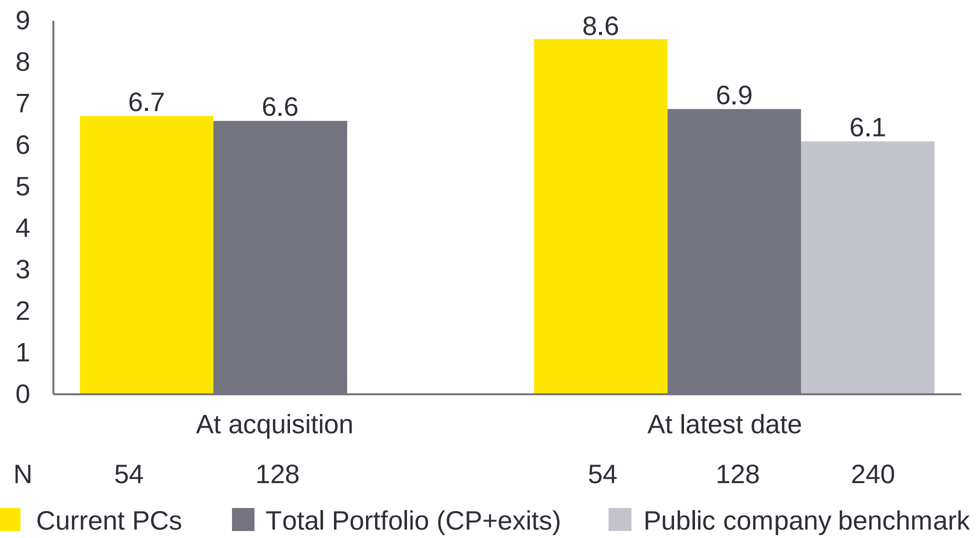

**Growth in capital productivity since acquisition (Sectors other than consumer, 2021)**



# What are the levels of financial leverage in the portfolio companies?

All portfolio companies had an average leverage ratio of 6.6 gross debt to EBITDA at acquisition and 6.9 at latest date or exit.

**Debt to EBITDA ratio (at acquisition and latest date)**



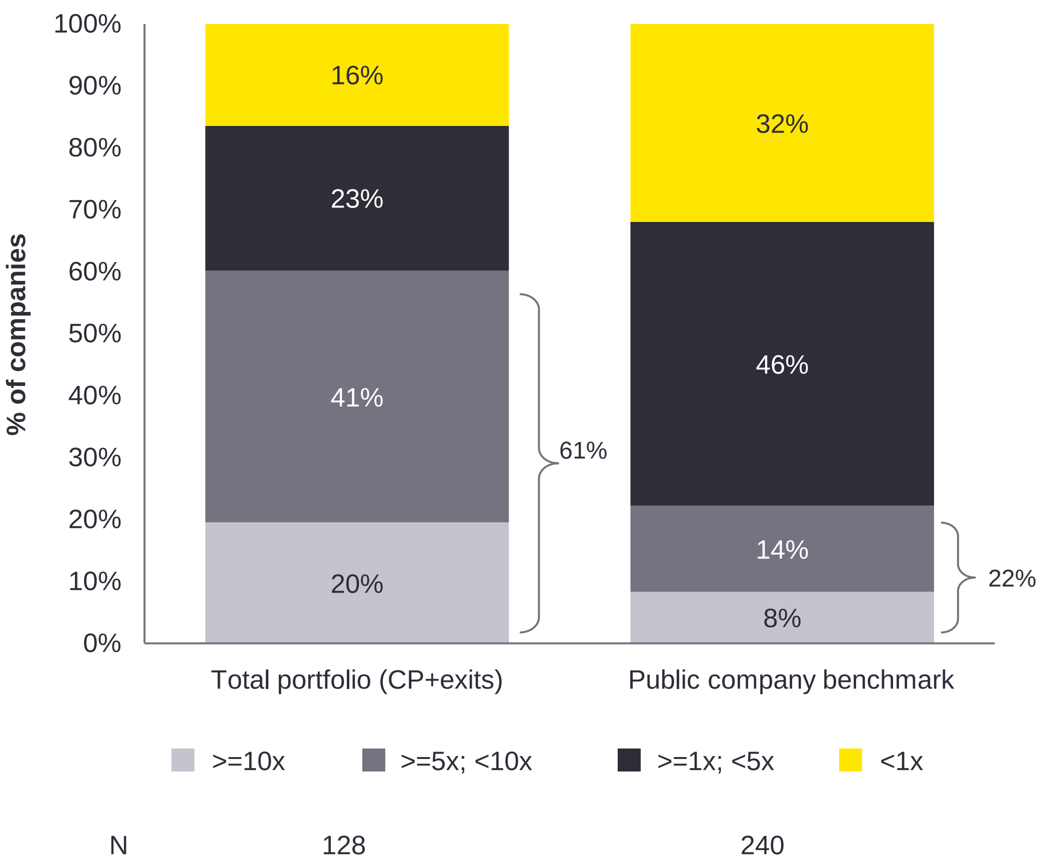

| Sector (CP+exits) | Debt to EBITDA at acquisition | Debt to EBITDA at latest date/exit |
|---|---|---|
| Industrials | 6.0 | 6.3 |
| Consumer | 6.4 | 6.2 |
| Health Care | 6.8 | 6.1 |
| Infrastructure | 6.3 | 9.3 |
| Technology | 8.3 | 7.4 |
| Other | 7.9 | 8.7 |

- One measure of financial leverage is the ratio of gross debt to EBITDA.
- Across the current portfolio companies, debt has increased from 6.7x at acquisition to 8.6x at latest date, which is primarily driven by businesses which have (i) not yet fully recovered from the impact of COVID-19 in 2021 and (ii) been refinanced post-investment by PE owners. We also note that EBITDA used in this calculation represents figures reported in the accounts and therefore will not include the full year impact of acquisitions. When compared with debt on balance sheet at the reporting date, this may overstate the leverage ratio for highly acquisitive portfolio companies.
- There are a few factors for consideration when interpreting this metric, specifically relating to gross debt which represents an accounting measure and includes:
  - In some cases, lease liabilities, specifically financial leases recognised under IFRS 16 which became effective in January 2019.
  - Debt obtained by consumer finance providers to fund their normal business of consumer lending, which is typically backed by the customer advances book (i.e., trade finance in nature).
- This differs to the definition of leverage typically used in an M&A transaction context, which would likely exclude lease liabilities and include cash to calculate net debt.
- Across the total portfolio, the leverage ratio averaged 6.6x at the time of initial investment by the PE owners and 6.9x at latest date or exit, indicating that debt has grown at a slightly higher rate to growth in profit. By sector, leverage has increased under PE ownership in all sectors except technology.

# What are the levels of financial leverage in the portfolio companies? (cont'd)

Portfolio companies have much higher levels of financial leverage than public companies: 61% of portfolio companies have a debt-to-EBITDA ratio above 5x, vs. 22% of publicly listed companies.

**Comparison of financial leverage (debt to EBITDA ratio at latest date)**

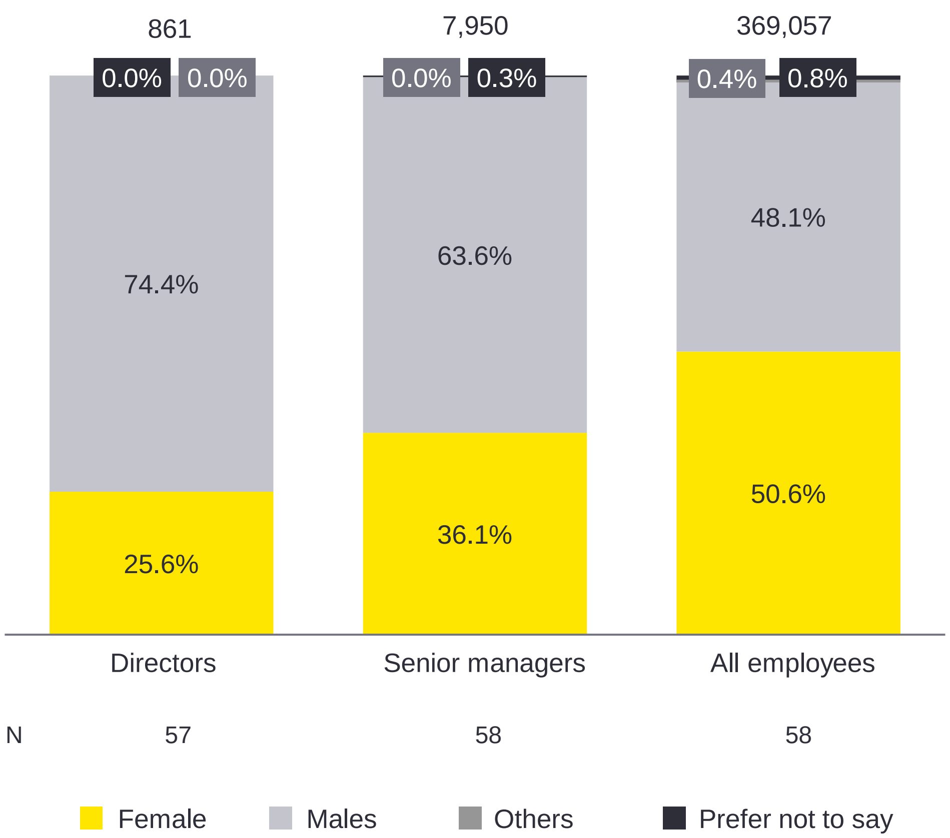



- One distinctive feature of the PE business model is that it typically uses greater financial leverage than most public companies. More debt and less equity at the time of investment increases the effect of change in enterprise value at exit on equity return, both up and down.
- On the metric of gross debt to EBITDA, the portfolio companies (CP+exits) averaged 6.9x compared with the public company benchmark of 6.1x, showing higher levels of financial leverage in the portfolio companies. Whilst 61% of portfolio companies have leverage ratios above 5x, this is true for only 22% of companies in the public company benchmark.

# What is the level of gender diversity in the portfolio companies

Female representation is 51% at an overall employee level across the current portfolio companies and 26% at the Director level. 37% of FTSE 250 board positions are held by females (source: Hampton-Alexander Review).

**Gender diversity amongst portfolio companies by designations**



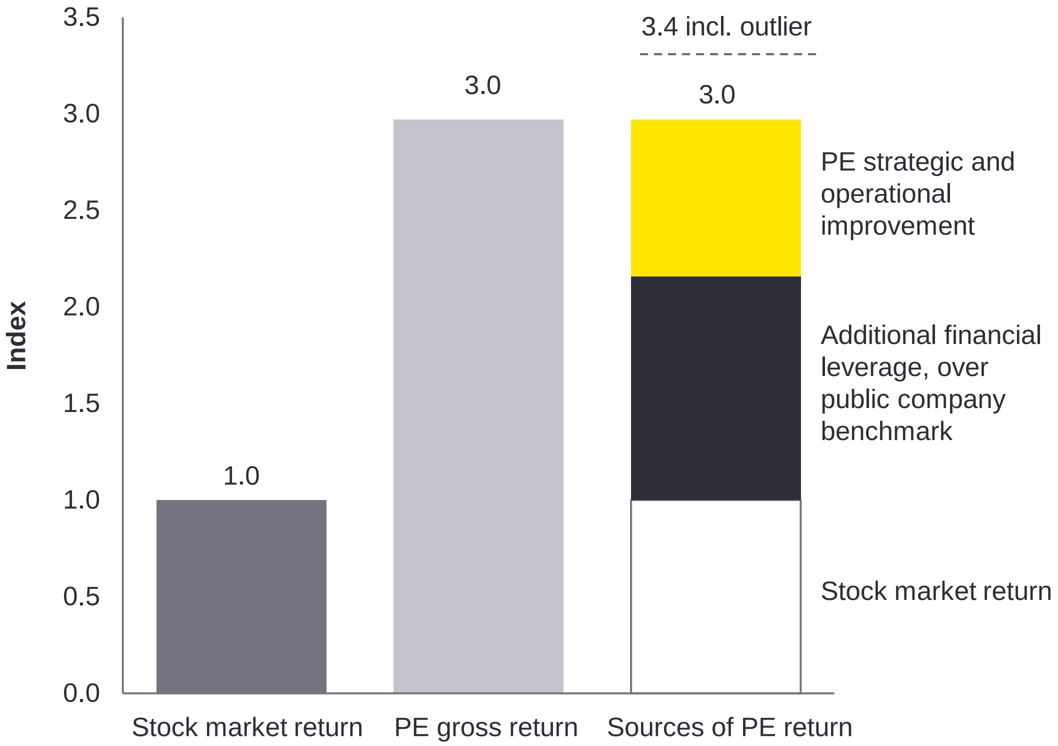

- Gender diversity may provide an additional lever for value creation within firms' portfolios.
- Female representation is 51% (2020: 50%) at an overall employee level across the current portfolio companies reporting the data, mostly driven by the health care sector (82% females out of c.55k employees), while all other sectors are male dominant, i.e., there is a skew when looked at on a sectoral basis.
- 26% (2020:24%) of directors in the portfolio companies are females. This compares to 37% (2020: 33%) of FTSE 250 board positions held by females (source: Hampton-Alexander Review, Feb, 2022*).

**This includes non-executive positions, consistent with the measure used to represent gender diversity in the portfolio companies.*

# How do PE investors generate returns from their investments in the portfolio companies?

The equity return from portfolio company exits is 3.0x the public company benchmark; c.40% of the additional return is due to PE strategic and operational improvement, and the balance from additional financial leverage.

**Gross equity return and sources of return, portfolio company exits 2005–21**

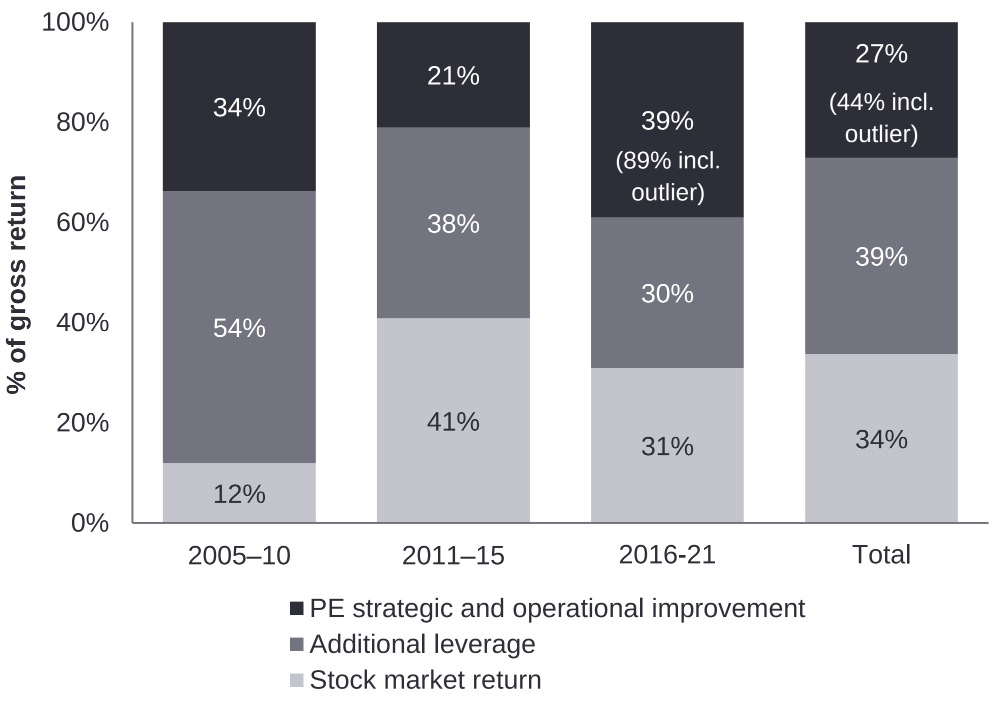



- The portfolio companies owned and exited by their PE owners achieved an aggregate gross equity investment return significantly in excess of benchmarked public companies, by a factor of 3.0x (compared with the equity return from investment in public companies matched by the same timeframe as each portfolio company investment). This is consistent with the returns multiple in 2020 of 3.0x.
- For public and PE, the measure of gross return is before the fees and charges incurred by investors, which are higher in PE than in public equity.
- The source of the PE return over and above public company return comprises the amount attributable to additional financial leverage and PE strategic and operational improvement.

# How do PE investors generate returns from their investments in the portfolio companies? (cont'd)

Whilst the results vary over time, the component of the gross return from PE strategic and operational improvement has grown in recent years.

**Returns attribution, portfolio company exits 2005–21**




| | 2005–10 | 2011–15 | 2016-21 | Total |
|---|---|---|---|---|
| N | 19 | 47 | 31 | 97 |
| Average hold time (years) | 4.6 | 6.1 | 6.9 | 6.1 |

- Analysing the sources of PE returns over time, here expressed by year of exit of the portfolio companies, shows some variation but also a consistent element of PE strategic and operational improvement.

# 4 Basis of findings

# Basis of findings

| Question | | Page No. |
|---|---|---|
| **How is the portfolio company data aggregated?** | ► The findings in this report are aggregated across all portfolio company data points, to give insights into the systematic effects of PE ownership of the portfolio companies. | 53 |
| **Is the profile of the portfolio companies skewed by sector or size?** | ► The portfolio companies are skewed towards the health care sectors and consumer sector, accounting for 70% of employment vs. 52% in the UK private sector. The portfolio companies are typically smaller than the public companies that make up the public company benchmark used in this report.<br>► There is variation by sector across many of the performance measures in this report. consumer sector tend to perform above the other sector groupings, whilst industrials tends to perform the worst. | 54 |
| **How are the benchmarks derived and calculated?** | ► The benchmarks used in this report are compiled from published information, matched by sector and timeframe to individual portfolio companies, and aggregated using the same methodology as portfolio company results. | 55 |
| **What is the returns attribution methodology?** | ► The returns attribution methodology separates out the effects of additional financial leverage and public stock market performance to test for evidence of outperformance by PE investments in the portfolio companies. | 56–59 |

# How is the portfolio company data aggregated?

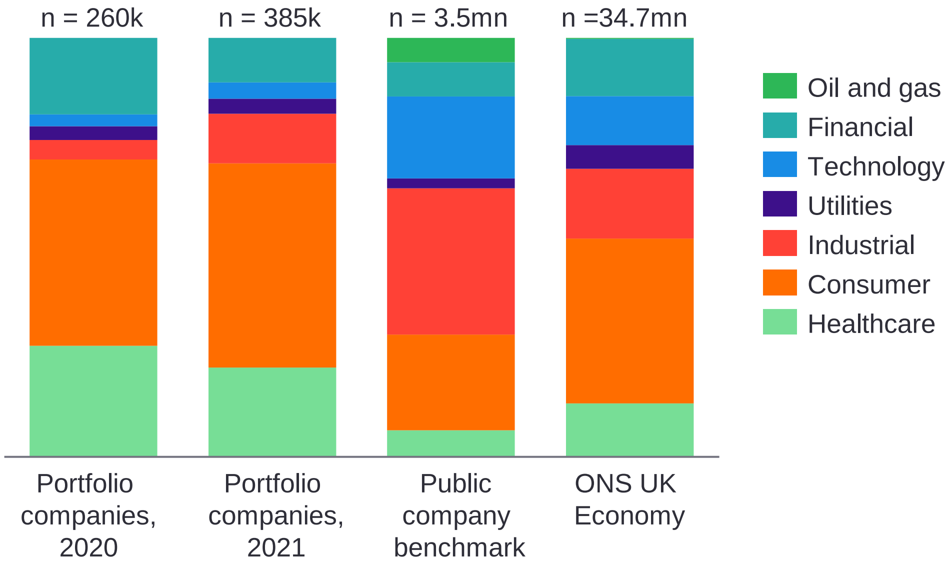
The findings in this report are aggregated across all portfolio company data points, to give insights into the systematic effects of PE ownership of the portfolio companies.

- The most accurate way of assessing the effect of PE ownership on the portfolio companies is to aggregate all of the data to present a single, overall result. Given the independent control of portfolio company selection criteria by the PERG, the size of the population and the high degree of compliance, these aggregated findings provide insight into several key questions asked about the effect of PE ownership on large UK businesses.
- Aggregating the data across all of the portfolio company data points avoids the bias that originates from selective use of either the best or the worst on any measure - which may be correct individually but is not the right basis of a generalised view on the effect of PE ownership.
- There are two main average growth measures used in the report:
  - CP+exits: this measures the change from acquisition to the latest date or exit. As a result, it measures performance over the longest time period possible of PE ownership and includes the largest number of data points.
  - YoY: this measures the change in the current year from the prior year for current portfolio companies.
  - It should be noted that for the CP+exits measure, there is a calculation of average growth rates over different time periods across the portfolio companies, which creates some inherent inaccuracy. To avoid any significant distortion, the calculated average growth rate is tested against the simple check of percentage total change in factor/average length of holding period.
- Many growth measures including revenue, profit, organic employment, capital expenditure and cashflow require a comparison of full current year to full prior year to avoid the error inherent in annualising partial-year figures. This means that there is a delay from the time of acquisition by PE investors to when these year-on-year results can be incorporated in the analysis.
- In all findings, the figures presented include all the data points from the portfolio companies, except in specific situations where it is not possible to include individual companies, e.g., not provided in data template or a negative starting figure on growth rates, where this is noted on the chart. In some measures in some years, the calculated average is affected by the performance of one or two portfolio companies. In a few instances, this is deemed to distort the overall result, in which case the actual result is presented unchanged and a separate bar or line is added to show the result if the outlier(s) is excluded or a separate comment raised in the accompanying text.
- Average growth rates, a frequent performance measure in this report, are weighted averages in order to best measure economic impact, e.g., employment growth rates are weighted on the number of employees at acquisition. If numerical averages are used, this is noted.

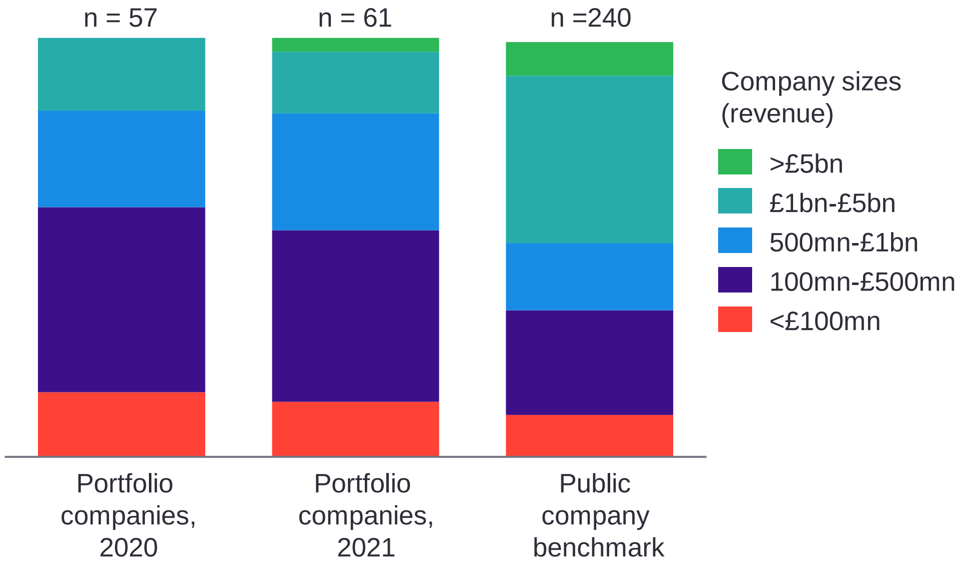
# Is the profile of the portfolio companies skewed by sector or size?

The portfolio companies are skewed towards the consumer and health care sectors, accounting for 70% of employment vs. 52% in the UK private sector as a whole; the portfolio companies are smaller than the public companies that make up the public company benchmark used in this report.

**Industry sector mix by employment: portfolio companies, public company benchmark and UK economy**




**Company size mix by number of companies: portfolio companies and public company benchmark**




- The portfolio companies are active across a wide range of industry sectors, the mix of which has changed as the composition of the portfolio companies evolves.
- Of the current portfolio companies, 70% of employment is in the consumer and health care sectors, compared with 52% in the UK economy. Conversely, portfolio company employment in the financial sector is 10% of the total, compared with 14% for the UK economy as a whole.
- The public company benchmark group has been selected on size set at the largest and smallest deal sizes in the entire portfolio company group (CP+exits) from all companies listed on the London market.
- Within this range, the population of portfolio companies is smaller in terms of revenue size, with a large share of companies below £500mn in annual revenues and relatively few above £1bn.

*Note: n-count for portfolio companies includes exits where performance figures for year of exit has been provided*

# How are the benchmarks derived and calculated?

The benchmarks used in this report are compiled from published information, then matched by sector and timeframe to individual portfolio companies, and aggregated using the same methodology as aggregating portfolio company results.

| Sector | Current portfolio companies | Companies in public company benchmark |
|---|---|---|
| Consumer | 41% | 37% |
| Health Care | 11% | 4% |
| Utilities | 7% | 3% |
| Industrials | 8% | 33% |
| Technology | 18% | 12% |
| Other | 15% | 12% |
| **Total** | **100%** | **100%** |

*% of total n counts of respective populations*

**Public company benchmark**

- There are no readily available benchmarks on company performance to compare with the portfolio companies. Public company benchmarks are prepared as follows:
  - All 600 primary listed companies on the London Stock Exchange (LSE) at 31 December 2021.
  - The following are excluded on basis of no sector overlap: 314 in basic materials and equity investment trusts, OEICs and other financial or non-comparable sector entities (e.g., real estate investment and services, real estate investment trusts, banks, equity and non-equity Investment instruments), 20 companies with market capitalisation less than £210mn, the size threshold for take-privates in the PERG criteria, 26 companies with market capitalisation greater than £11bn (the market capitalisation of the largest portfolio company over the period of this study).
  - This results in 240 public companies in the benchmark group, with a sector composition as shown in the table.
- Public company data is sourced from Capital IQ and aggregated at the sector level to produce sector benchmarks for each measure over time. Sector benchmarks are matched to individual portfolio companies, by sector and also over the same timeframe. The overall public company benchmark result is then aggregated in the same way as for the portfolio companies, i.e., using the same weighting factors.

**UK private sector benchmark**

- For the UK private sector benchmarks, data is sourced from ONS reports. Time periods are matched for each portfolio company and the result is aggregated - again in the same way as for the portfolio companies, i.e., using the same weighting factors.

# What is the returns attribution methodology?

The returns attribution methodology separates out the effects of additional financial leverage and public stock market performance to test for evidence of outperformance by PE investments in the portfolio companies.

- One of the most common measures of investment return used by PE investors is equity multiple, i.e., equity realised divided by equity invested, before all fund-level fees and charges. This data, which is not typically disclosed, is provided on the portfolio company data templates.
- To analyse the sources of any investment return, the ‘returns attribution’ calculation analyses the gross equity multiple and attributes any equity gain (or loss) to three components:
  - Additional leverage: the effect on the equity multiple of the additional financial leverage PE firms place on a company above the average public company sector levels. To calculate this effect, the capital structure of each investment is adjusted to match the average financial leverage levels of public company sector benchmarks; typically, this reduces the amount of debt and increases the amount of equity thereby reducing the equity return. The adjusted capital structure also takes into account interest savings over the holding period as well as the changes in net debt that took place during ownership; any leveraged dividends received by equity investors are moved to the date of exit, and the exit capital structure is adjusted for dividends. The difference between the original investment equity multiple and the adjusted equity multiple is the effect of additional leverage.
  - Public stock market returns: the effect on the equity multiple of underlying gain in the sector that an investor could have achieved by investing in public stock markets. This effect is calculated by determining the total shareholder return (TSR) earned in the public company benchmark sector over the same timeframe as the PE investment. Both measures of equity return capture sector earnings growth, valuation multiple changes and dividend payments. The public stock market return TSR is converted into an equivalent equity multiple figure and then compared with the investment return after the adjustment for additional leverage, i.e., when both public and PE have the same capital structure.
  - PE strategic and operational improvement: this is the component of the equity multiple that is not explained by additional leverage or public stock market returns, so it captures all the incremental effects of PE ownership vs. public company benchmark performance, i.e., in earnings growth, valuation multiple change and dividends. The component of the equity multiple for PE strategic and operational improvement is calculated by subtracting the market return from the equity multiple adjusted for additional leverage.
- Consistent with other analyses in this report, the benchmarks and calculations are applied at the individual portfolio company level and then aggregated to produce the overall findings presented in this report.
- It should be noted that there is no standard methodology for the returns attribution calculation. The methodology in this report has been discussed with the PERG and the Global Capital Committee of the BVCA, and their comments have been incorporated.

# Returns attribution methodology – Illustrative example

In the illustrative example presented below, we show the return (gross and by component) achieved by PE Fund X for its investment in Portfolio Company A, as calculated in accordance with the Returns Attribution methodology. The scenario assumes:

- Company A, operating in the consumer sector, was invested in by PE Fund X on 25 March 2013 at an enterprise value of £1.2bn (EV) and exited on 10 May 2017 at an EV of £3.0bn.
- PE Fund X funded the investment via cash equity of £500m and received a gross equity cash return of £1.5bn on exit, achieving a gross equity multiple of 3x (no dividends were received over the investment period).

Note: This example represents dummy data and is not reflective of any return metrics received in respect of portfolio company exits included in this report.

**Gross equity multiple achieved by PE Fund X (Step 1)**

| All units in £m | Date: | 25-Mar-13 | xx-xxx-xx | 10-May-17 |
|---|---|---|---|---|
| | Event: | **Acquisition** | **Dividends** | **Exit** |
| **Enterprise value:** | | 1,200 | | 3,000 |
| **Capital structure:** | Equity | 500 | | 1,500 |
| | Debt | 700 | | 1,500 |
| | EV | **1,200** | | **3,000** |
| **Equity returns:** | Equity in | (500) | - | - |
| | Equity out | - | - | 1,500 |
| | Net equity flow | (500) | - | 1,500 |
| **Deal returns:** | Equity multiple | | | 3x |
| **Debt/EV** | | *58%* | A | *50%* |

**A. Equity Multiple** – Calculated as Total equity in (£500m) / Total equity out (£1,500m), reflects the gross equity multiple achieved (3x) by PE Fund X on its investment in Portfolio Company A.

*Key:* Data provided by PE Fund X (illustrative)

# Returns attribution methodology – Illustrative example (cont'd)

**Impact of additional leverage (Step 2)**

| **All units in £m** | | | | |
|---|---|---|---|---|
| | Date: | 25-Mar-13 | xx-xxx-xx | 10-May-17 |
| | Event: | **Acquisition** | **Dividends** | **Exit** |
| **Enterprise value:** | | 1,200 | | 3,000 |
| **Capital structure:** | Equity D | 961 | D | 2,055 |
| | Debt C | 239 | E | 945 |
| | EV | **1,200** | | **3,000** |
| **Equity returns:** | Equity in | (961) | - | - |
| | Equity out | - | - | 2,055 |
| | Net equity flow | (961) | - | 2,055 |
| **Deal returns:** | Equity multiple | | F | 2.1x |
| **Debt/EV** | | *20%* | | *32%* |
| **Debt/EV (avg)** | | | B | ***26%*** |

**B. Benchmark Debt/EV —** Represents a benchmark calculated based on the weighted average Debt to Capital ratio (Debt/EV) for a group of PLC companies in the same sector and over the same investment period as Portfolio Company A In this example, the weighted average Debt to capital ratio of the PLC companies is 20% at acquisition date and 32% at exit date, with an the average financial leverage level of 26%.

**C. Debt at acquisition –** Calculates the value of Debt funding (£239m) at acquisition required to match the average Debt/EV ratio (26%) of the Benchmark.

**D. Equity investment –** Derived based on the assumption that there is no change in enterprise value at acquisition or exit date, i.e. EV of £1,200m less £239m of Debt funding.

**E. Debt at exit –** Calculated as Debt at acquisition in (C) at £239m plus the movement in debt in step 1 of £800m (between acquisition and exit date) less post-tax interest savings assumed on the differential between at acquisition debt in Step 1 (£700m) vs. Debt at acquisition calculated in (C) at £239m. This assumes an after tax cost of debt at c. 5%.

**F. Impact of additional leverage –** An equity multiple of 2.1x was achieved assuming leverage in line with the public company benchmark, resulting in an incremental return of 0.9x (compared with Step 1) due to additional leverage.

*Key:* Data provided by PE Fund X (illustrative) Key figure

# Returns attribution methodology – Illustrative example (cont'd)

**Public stock market return (Step 3)**

| All units in £m | | | | |
|---|---|---|---|---|
| | Date: | 25-Mar-13 | xx-xxx-xx | 10-May-17 |
| | Event: | **Acquisition** | **Dividends** | **Exit** |
| **Equity returns:** | Equity in | (500) | - | - |
| | Equity out | - | - | H 679 |
| | Net equity flow | (500) | - | 679 |
| **Deal returns:** | Equity multiple | | | 1.4x |
| | *IRR %* | | | G *8%* |

**Components of return**

| | |
|---|---|
| **Gross equity multiple (Step 1)** | 3.0x |
| **Less: Impact of additional leverage (Step 2)** | (0.9)x |
| **Less: Public stock market return (Step 3)** | (1.4)x |
| **PE strategic & operational improvement** | I 0.7x |

G. **Public stock market return** – Represents a benchmark calculated based on the weighted average Total Shareholder Return for a group of PLC companies in the same sector and over the same investment period as Portfolio Company A. This 8% includes both capital growth and dividend payments on PLC benchmark companies (source: S&P Capital IQ).

H. **Exit equity out -** Calculated based on the assumption that the same level of equity is invested as that in Step 1 with growth over the investment period equal to the benchmark public stock market return.

I. **PE strategic & operational improvement –** Calculated as the component of the gross return (3.0x) not explained by additional leverage (0.9x) in Step 2 or Public stock market return (1.4x) in Step 3.

It should be noted that there is no standard methodology for the returns attribution calculation. The methodology in this report has been discussed with the PERG and the Global Capital Committee of the BVCA, and their comments have been incorporated.

*Key:* Data provided by PE Fund X (illustrative) Key figure

# Glossary

| | | Performance measure | Methodology |
|---|---|---|---|
| Resources | Labour | **Employment** | |
| | | Reported | Reported employment is based on number of FTEs as reported by the portfolio companies. |
| | | Organic | Measures the number FTEs after excluding for impacts of M&A |
| | | **Employment cost** | |
| | | Avg. employment cost per head | Employment cost represents salary expense excluding pension |
| | | Pension provision (surplus/deficit) | Percentage of net assets/market liability of the total market value of the pension scheme assets |
| | | Gender diversity | Percentage of employees that are female vs. male vs. unspecified |
| | Capital | **Operating capital employed** | Operating capital employed is defined as the sum of fixed assets and working capital, where: |
| | | | ▸ Tangible fixed assets is based on reported figures by the portfolio companies |
| | | | ▸ Working capital is calculated as trade debtors + stock — trade creditors (as reported) |
| Productivity | | **Labour productivity** | Calculated as the sum of EBITDA/employee and GVA/employee |
| | | **EBITDA/employee** | EBITDA per employee as reported by the portfolio companies |
| | | **GVA/employee** | GVA per employee calculated as total EBITDA + total employment cost (as reported by portfolio companies) |
| | | **Capital productivity** | Calculated as revenue/operating capital employed, weighted by pro forma capital employed |

| Abbreviations | | Abbreviations | |
|---|---|---|---|
| CP | Current portfolio; represents a portfolio company still under ownership by the same PE Fund in this years study | ONS | UK private sector benchmark |
| CAGR | Compounded annual growth rate | PC | Portfolio companies, being large UK businesses owned by PE investors that meet the criteria determined by the PERG |
| DB | Defined benefit scheme | PE | Private equity |
| DC | Defined contribution scheme | PERG | Private Equity Reporting Group |
| EBITDA | Earning before interest, tax and depreciation and amortisation | PLC | Public limited company |
| GVA | Gross value added | R&D | Research and development |
| M&A | Merger and acquisitions | YoY | Year on year |

# 5

# Appendix — objective and fact base

# Key factors for consideration in this report

It is expected that the COVID-19 pandemic materially impacted the results in 2020 and YoY result of 2021 in this report, with a significantly higher level of dispersion seen in results across the portfolio companies, specifically in the trading metrics, compared with pre-2020 results. It is not possible to isolate the economic (or employment) impacts from the COVID-19 pandemic across the portfolio (or its component companies).

We highlight the following key factors that should be considered when reading this report:

- This report covers a period and comparative period (2021 and 2020) materially impacted by the social and economic effects of the pandemic. The specific impacts of the pandemic on individual companies (and the aggregate portfolio) cannot be robustly isolated, but we note:
  - A wide spread of trading results can be seen in 2021 across the portfolio companies (both the long-term and current PC portfolios). This is evidenced in the table below, which presents the weighted average YoY growth rate and the standard deviation of results of the current portfolio (in each year) for 2017–21. This indicates a similar standard deviation (an indication of higher deviation/dispersion in growth rates across the portfolio of companies) across the PCs for revenue growth in 2021 compared with 2020 and significantly higher than in prior years.
  - EBITDA standard deviation growth was lower in 2021 than 2020 across the PCs and higher than in prior years (except 2017).
  - The spread of results measuring employment growth, as well as capital employed, is not as significant in 2021 compared with the historical periods.
  - Refer to the following page, where we disclose the average growth and standard deviation measure for the key measures, as an indicator of the dispersion of performance across the portfolio.
- As in any year of this study, there is a degree of **sectoral skew** in the portfolio companies when compared with the public benchmark.
- The data tracks in year performance and cumulative performance over time. The cumulative performance reflects each relevant portfolio company from date of entry in the study to date of exit (but — clearly — does not track performance after exit). In certain cases, the trends in the cumulative data appears to be impacted by the materiality of the in-year movement (e.g., employment) and so may be considered a cyclical rather than structural factor. Readers should look at the cumulative data and the longer time series of in-year data.
- Relative to the ONS private sector benchmark for analysis of employee compensation, there is a skew in the current portfolio towards consumer and health care jobs in the portfolio companies which impacts the analysis in the current year, however the nature of the long-term study is that the mix of PE portfolios will evolve over time.
- The YoY employee cost per head analysis may be impacted by furlough receipts factored into the employment cost in 2020 reported by both the portfolio companies in their submissions and the companies included in the ONS private benchmark. As for the wider economic impacts of the COVID-19 pandemic, this can’t be isolated.

# Key factors for consideration in this report (cont'd)

It is expected that the COVID-19 pandemic materially impacted the results in 2020 and YoY result of 2021 in this report, with a significantly higher level of dispersion seen in results across the portfolio companies, specifically in the trading metrics. It is not possible to isolate the economic (or employment) impacts from the COVID-19 pandemic across the portfolio (or its component companies).

- The table below shows the weighted average growth and standard deviation measure for the key metrics analysed, as an indicator of the dispersion of performance across the portfolio.

| | Weighted average result (YoY) | | | | | Standard deviation (current PCs) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Revenue | 6 % | 2 % | 4 % | (18%) | 30% | 7 % | 10 % | 6 % | 24 % | 24% |
| EBITDA | 1 % | 7 % | 12 % | (29%) | 47% | 54 % | 23 % | 17 % | 75 % | 48% |
| Employment (# of jobs) | 0 % | 2 % | 2 % | (6%) | 2% | 20 % | 8 % | 16 % | 13 % | 15% |
| Employment cost per head | 2 % | 3 % | 4 % | (0%) | 8% | 5 % | 7 % | 9 % | 11 % | 11% |
| Capital employed | 0 % | 5 % | 3 % | 32 % | 6% | 58 % | 81 % | 377 % | 550 % | 82% |

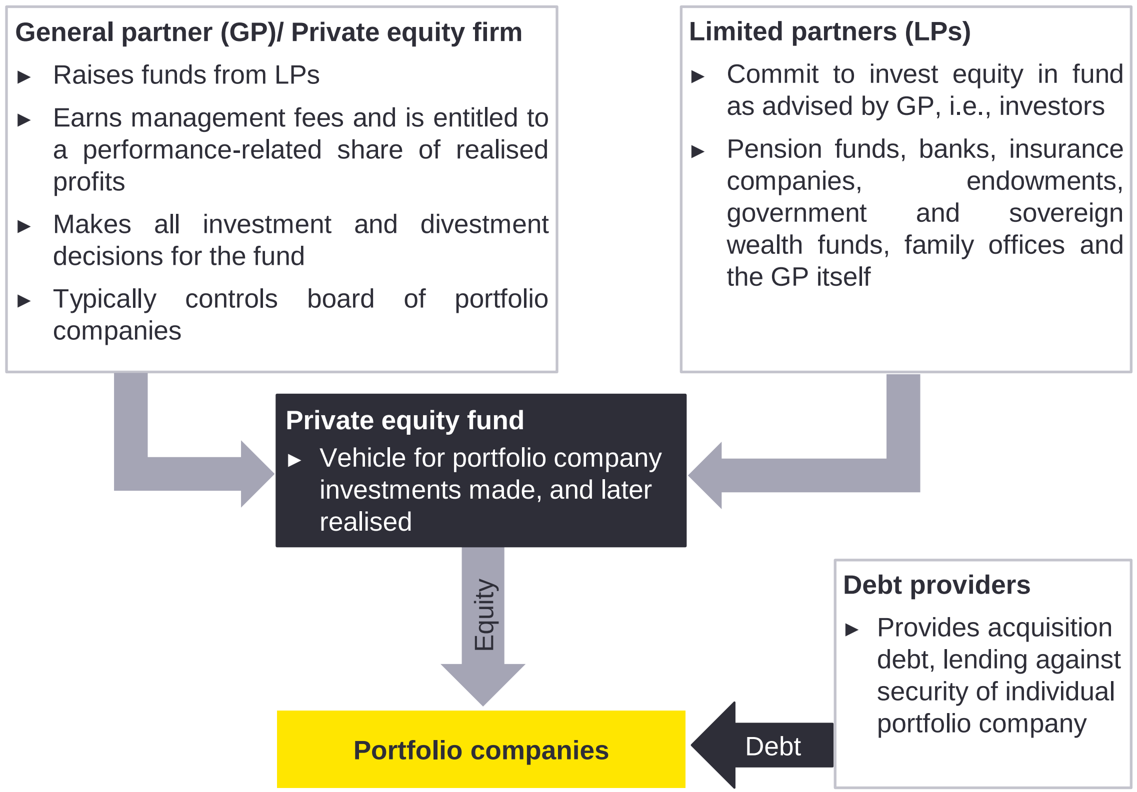
# What are the distinctive features of the PE business model?

The distinctive features of the PE business model include ownership of its portfolio company investments, the use of financial leverage, and its long-term investing horizon.

**Distinctive features of the PE business model**

- **Long term:**
  - LPs make an investment commitment to a PE fund of c.10 years.
  - Typically, equity capital is invested for the first five years and realised in the second five years with a typical investment horizon of three to seven years per portfolio company investment (average in this study is six years).
  - There are restrictions on withdrawing commitments from the fund, thereby allowing a long-term investment period. This is in contrast with many other financial investors (e.g., hedge funds, public equity funds) who invest in publicly traded shares that have few restrictions on buying or selling.
- **Ownership of portfolio companies:**
  - The PE fund typically acquires all or a majority of the equity in its portfolio companies giving it (as advised by the GP) control of the board, strategy, management and operations of the company.
  - Most other financial investors (e.g., hedge funds and public equity funds) acquire minority shareholdings with no direct influence over management or strategy.
- **Use of financial leverage:**
  - In acquiring portfolio companies, third-party debt is used, and this is secured on the portfolio company itself, alongside equity provided by the PE fund.
  - The leverage levels applied to portfolio company investments are typically higher than public company benchmarks.

**Diagram of the illustrative private equity structure**




*Note: some PE-like investors (as defined by PERG) have a different business model*

# What are the criteria used to identify portfolio companies, and how are they applied?

Portfolio companies are identified at the time of their acquisition, based on criteria covering their size by market value, the scale of their UK activities and the remit of their investors. The criteria and their application are independently determined by the PERG.

- The criteria for identifying portfolio companies, and their application, are determined by the PERG (see privateequityreportinggroup.co.uk for details of composition and remit).
- A portfolio company, at the time of its acquisition, was:
  - 'Acquired by one or more PE firms in a public-to-private transaction where the market capitalisation together with the premium for acquisition of control was in excess of £210mn, and either more than 50% of revenues were generated in the UK, or UK employees totalled in excess of 1,000 full-time equivalents'

    Or

  - 'Acquired by one or more PE firms in a secondary or other non-market transaction where enterprise value at the time of the transaction was in excess of £350mn, and either more than 50% of revenues were generated in the UK, or UK employees totalled in excess of 1,000 full-time equivalents'
  - And where PE firms are those that manage or advise funds that own or control portfolio companies or are deemed after consultation on individual cases by the PERG, to be PE-like in terms of their remit and operations
- The companies and their investors that met the criteria were identified by the BVCA and then approved by the PERG.
- As in prior years, the portfolio companies that volunteered to comply with the disclosure aspect of the Guidelines, but did not meet all of the criteria above at acquisition, are excluded from this report.

# What are the criteria used to identify portfolio companies, and how are they applied? (cont'd)

Movements in the number of portfolio companies

| | Exits 2005–06 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January** | | **37** | **42** | **47** | **43** | **64** | **73** | **72** | **70** | **61** | **59** | **50** | **55** | **55** | **61** | **64** | |
| Portfolio companies introduced/excluded with changes in PERG criteria | | - | - | - | 12 | 4 | - | (2) | - | - | (2) | - | (1) | - | - | - | 11 |
| Adjustments to prior years * | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1) | (1) |
| Acquisitions of portfolio companies | | 10 | 5 | - | 11 | 8 | 7 | 10 | 7 | 11 | 5 | 13 | 10 | 10 | 8 | 16 | 130 |
| Exits of portfolio companies | (9) | (5) | - | (3) | (2) | (3) | (8) | (10) | (16) | (13) | (12) | (8) | (9) | (4) | (5) | (6) | (113) |
| **Portfolio companies at 31 December** | | **42** | **47** | **43** | **64** | **73** | **72** | **70** | **61** | **59** | **50** | **55** | **55** | **61** | **64** | **73** | |
| Exits and re-entrants | | 1 | - | - | 1 | 1 | 3 | 5 | - | 1 | 3 | 3 | 1 | - | 2 | 2 | 23 |
| Number of exits by IPO | | - | - | - | - | - | 1 | 3 | 8 | 5 | 2 | - | - | 1 | 1 | - | 21 |

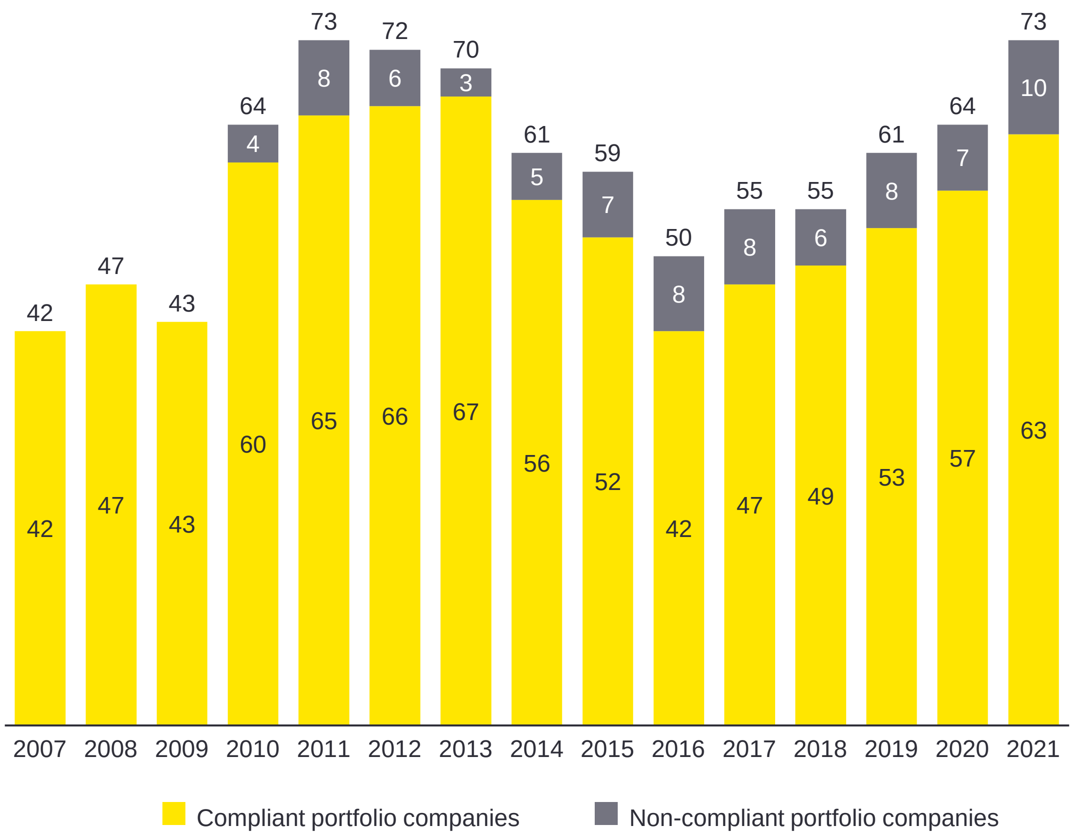
* *Portfolio company excluded from scope*

- In 2010, the criteria used to determine the portfolio companies were changed by the PERG, by lowering the entry enterprise value threshold. This brought in a total of 12 new portfolio companies. In 2013, the PERG decided that two portfolio companies that had made significant disposals and was as a result well below the size criterion, would be excluded from the population; a similar decision was taken for two portfolio companies in 2016. In 2018, one portfolio company was removed due to restructuring, which diluted ownership below the threshold requirements for the population.
- In 2017, the PERG undertook a consultation process to establish which portfolio companies are 'infrastructure'-like and, therefore, should be excluded from the list of portfolio companies. This resulted in Thames Water being excluded from the 2017 report onwards, Associated British Ports from the 2016 report onwards and Anning ton Homes from the 2013 report onwards.
- The effect of PE ownership on a business is evaluated from the date of acquisition to the date of exit. The date of exit is defined as the date of completion of a transfer of shares, which means that the PE fund no longer has control, or, in the case of IPO onto a public stock market, the date of the first trade.

# How representative is the data set used in this report?

The aggregated data in this report covers 90% of the total population of portfolio companies (as defined by PERG). This year, compliance for the current portfolio companies was 63 of 73, or 86%.

**Number of portfolio companies on 31 December, and compliance**



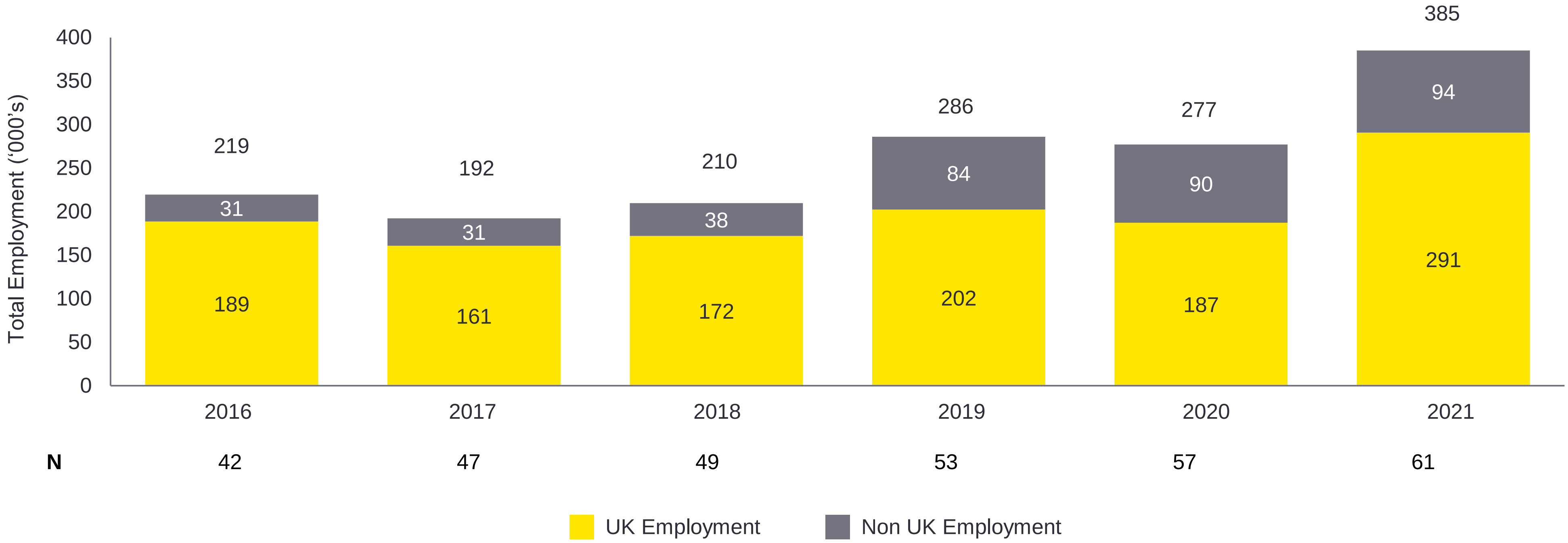

*Note: 2 PCs have been given a first year exemption considering the short ownership period by the PE in 2021*

- PE firms were requested to complete a data template for each of their portfolio companies, for the purposes of preparing this report. Individual portfolio company submissions were reviewed by EY and were accepted or rejected depending on their completeness. In certain analyses in this report, specific data from some PCs has been excluded from our analysis (discussed further in the Key Considerations on the following pages).
- Compliance by portfolio companies is at 86% in 2021 and has ranged between 84%–90% historically since 2010. In many measures of performance, data covers both current portfolio companies as well as those owned and exited.
- Of the group of 113 former portfolio companies (exits), 14 relate to exits in the period 2005–07 that were not required to submit the full data template. Compliance of the remaining exited portfolio companies is 91 out of 99 or 92%. Therefore on this measure of the current portfolio and exits (CP+exits), the total population is 172, and there is data reported on 154, a compliance rate of 90%.
- For returns attribution, which is only measured on exits, compliance is 99 out of 113 or 88%; of the 6 exits in 2021, 4 provided data, 2 are non-compliant.

# How representative is the data set used in this report? (cont'd)

The current portfolio companies in 2021 reported total employment of 385K (61 PCs) including both UK and non UK employees.

**YoY employment for current PCs (represented by no. of jobs)**



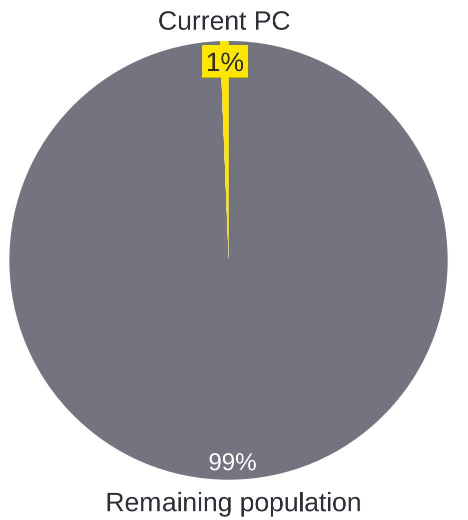

- The charts opposite shows total employment of the current portfolio companies in each respective year of the study.
- The 61 current portfolio companies in 2021 contributed 385k total no. of jobs which compares to 277K no. of jobs contributed by the 57 current PCs in the 2020 study.
- Excluding one outlier, 60 current PCs contributed 322k no. of jobs in 2021.

*Note: Employment numbers represent average FTEs as reported by portfolio companies.*

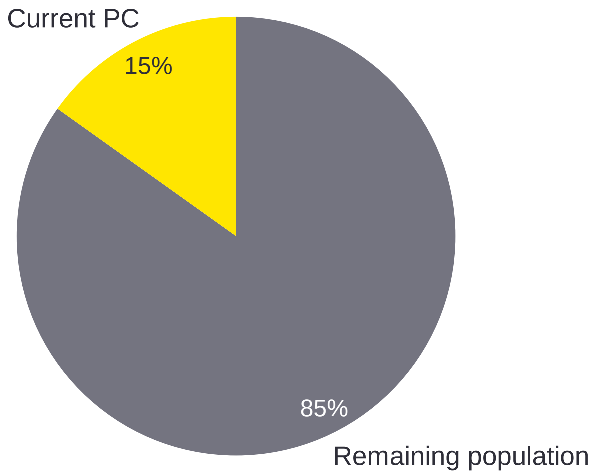
# How representative is the data set used in this report? (cont'd)

Current portfolio companies in this study represent 1% of UK companies in PE/VC backed businesses and account for 15% of total employment of PE/VC backed businesses. (Source: Measuring the contribution of private equity and venture capital to the UK economy in 2021)

**Total number of current PCs as % of UK companies in PE/VC backed businesses**




**UK employment of current PCs as % of UK PE/VC backed businesses**




*Note: This excludes one large retail chain from the current PC populations which has been given a first year exemption, therefore materially distorting the percentage coverage.*

- Above chart represents the contribution of current portfolio companies to the UK PE/VC backed businesses in terms of, a) no. of current portfolio companies (61) in this report with the UK companies (9,600) in PE/VC backed businesses, and b) total no. of UK employees (291k) in the current portfolio companies with the UK employees (1.9m) of PE/VC backed businesses.
- Information on the number of UK PE / VC backed businesses and their UK employees is taken from an EY study commissioned by the BVCA, "Measuring the contribution of private equity and venture capital to the UK economy in 2021", published April 2022.

# How robust is the data set used in this report?

## Portfolio companies (as at 31 December 2021)

| Portfolio company | GP(s) |
|---|---|
| **Acacia Group**[1] | **Onex** |
| Advanced Computer Systems/ACS | BC Partners |
| Alexander Mann Solutions | OMERS Private Equity |
| Ambassador Theatre Group | Providence Equity Partners |
| ASDA[1] | TDR Capital |
| Automobile Association (AA)[1] | Towerbrook Partners |
| Bourne Leisure[1] | Blackstone |
| **Camelot** | **Ontario Teachers' Pension Plan** |
| Care UK | Bridgepoint Capital |
| Chime Communications | Providence Equity Partners |
| Citation Limited | KKR |
| CityFibre | Goldman Sachs |
| Civica | Partners Group |
| Clarion Events | Blackstone |
| Cobham Limited | Advent International |
| Constellation Automotive Group (BCA)[2] | TDR Capital |
| David Lloyd Leisure | TDR Capital |
| Davies Group[1] | BC Partners |
| Domestic and General Group | CVC Capital Partners |
| Edinburgh Airport | Global Infrastructure Partners |
| **Energy Assets Group Limited** | **Asterion Industrials Partners** |
| **Equiniti Group PLC**[1] | **Siris Capital** |
| ESP Utilities | 3i Infrastructure plc |
| esure group | Bain Capital |
| Evri (previously Hermes) | Advent International |
| Farnborough Airport | Macquarie Infrastructure and Real Assets (Europe) Limited |
| Froneri (RR Ice-cream) | PAI Partners |
| **Global Risk Partners Limited** | **Searchlight Capital Partners** |
| HC-One | Safanad/Formation Capital |
| Huws Gray[1] | Blackstone |
| Hyperoptic | KKR |
| Infinis | 3i Infrastructure plc |

| Portfolio company | GP(s) |
|---|---|
| **Interpath Advisory**[1] | **H.I.G Capital** |
| IRIS Software Group | Hg Capital / ICG |
| JLA | Cinven Limited |
| Kantar plc | Bain Capital |
| KCOM | Macquarie Infrastructure and Real Assets (Europe) Limited |
| LGC | Cinven Limited |
| **London City Airport** | **OMERS infrastructure, Ontario Teachers' Pension Plan** |
| M Group Services | PAI Partners |
| **McCarthy & Stone Plc**[1] | **Loan Star** |
| Medivet Group Ltd[1] | CVC Capital Partners |
| Merlin Entertainments | Blackstone |
| Morrisons[1,3] | Clayton Dubiler & Rice |
| Moto (owned with USS) | CVC Capital Partners |
| Motor Fuel Group / MFG | Clayton Dubiler & Rice |
| MyDentist[1] | Palamon Partners |
| NewDay (owned with CVC) | Cinven Limited |
| Parkdean Holidays | Onex |
| PIB[1] | Apax Partners |
| Premium Credit | Cinven Limited |
| **Punch Taverns**[1] | **Fortress Investment Group** |
| **Pure Gym** | **Leonard Green & Partners** |
| QA Training | CVC Capital Partners |
| RAC | CVC Capital Partners |
| Rubix | Advent International |
| Shawbrook Bank | BC Partners |
| Stonegate Pub | TDR Capital |
| Study Group International | Ardian |
| Sykes Holiday Cottages | Vitruvian Partners |
| Travelodge | Goldman Sachs |
| VetPartners[2] | BC Partners |
| Village Hotels | KSL Capital Partners |
| Viridian (now Energia group) | iSquared Capital |
| Viridor | KKR |

*Portfolio companies in **bold** text are those GPs and portfolio companies that have not complied with reporting requirements for the study for 2021 financial years*
*Notes: [1] Company is new to population; [2] Company has complied previously; [3] First year exemption provided*

# How robust is the data set used in this report? (cont'd)

### Portfolio companies (as at 31 December 2021) (cont'd)

| Portfolio company | GP(s) |
|---|---|
| Voyage Care[1,3] | Wren House Infrastructure |
| Vue Cinema | OMERS Private Equity |
| Williams Lea Tag | Advent International |
| Witherslack[1] | Mubadala Capital |
| WSH (Westbury Street Holdings) | Clayton Dubiler & Rice |
| Zellis | Bain Capital |
| Zenith | Bridgepoint Capital |
| ZPG | Silver Lake Capital |

### Exits of portfolio companies during 2021

| Portfolio company | GP(s) |
|---|---|
| Keepmoat | TDR Capital |
| Miller Homes | Bridgepoint Capital |
| MyDentist | Carlyle |
| PA Consulting | Carlyle |
| **Punch Taverns** | **Patron Capital** |
| **Voyage Care** | **Partners Group** |

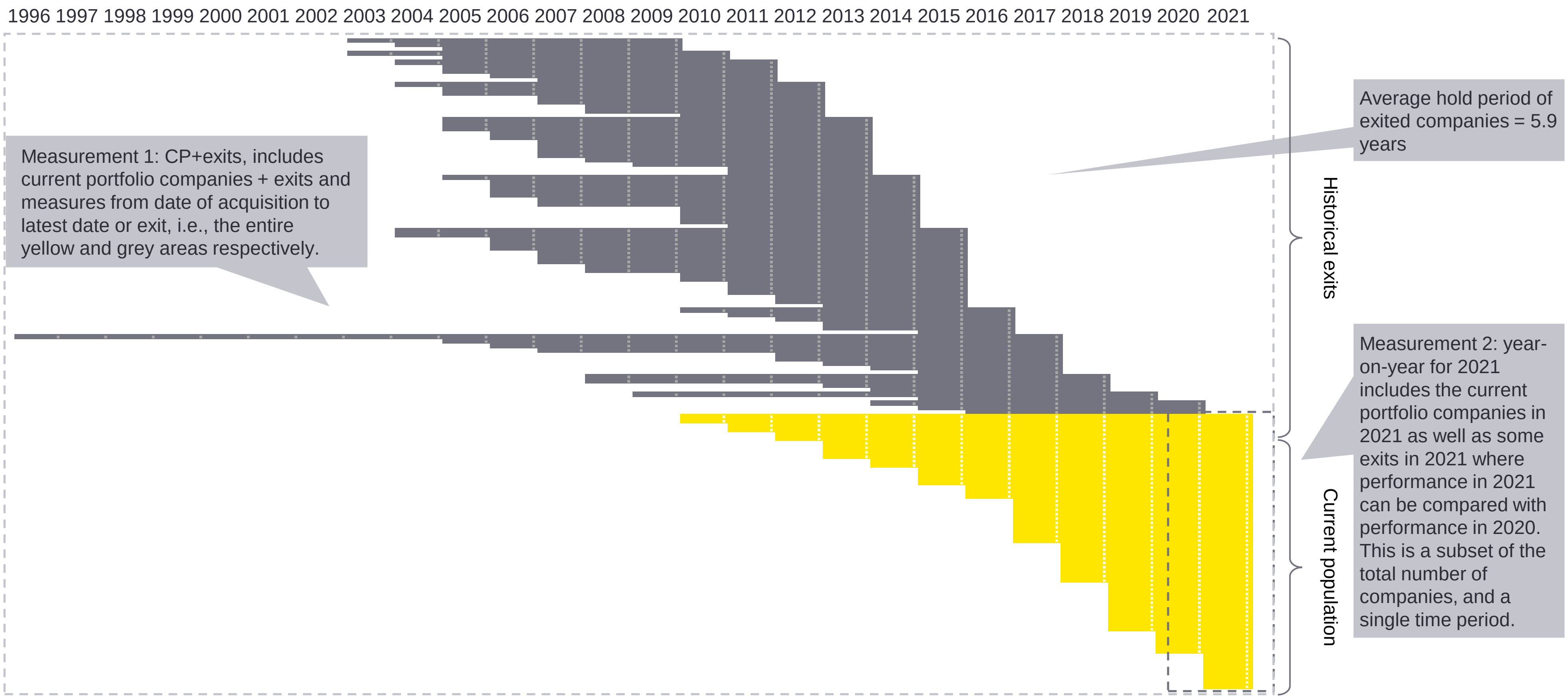
*Portfolio companies in **bold** text are those GPs and portfolio companies that have not complied with reporting requirements for the study for 2021 financial years*
*Notes: [1] Company is new to population; [2] Company has complied previously; [3] First year exemption provided*

# What are the time period and coverage of the measures used to evaluate performance?

The two main measures used in this report cover a) the entire period of PE ownership of all the portfolio companies, i.e., from initial acquisition to latest date or exit, and b) the latest year-on-the-prior-year comparison of the current portfolio companies.

**Period of ownership of portfolio companies by PE investors**

Note: the data set for company exits includes investments realised starting 2005 vs. 2007 for the main data set.



# What performance measures are presented in this report, and how do they interrelate?

This report presents a range of performance measures to test the impact of PE ownership on the portfolio companies' resources, productivity, trading, leverage and investor returns.

**Overview of performance measures in this report**

| Change in resources | | Plus change in productivity | Leads to changes in trading outcomes | Plus change in financial leverage | Leads to equity returns to investors (at exit) |
|---|---|---|---|---|---|
| **Labour** | **Capital** | | | | |
| Employment<br>► Reported<br>► Organic (excluding M&A)<br>Employment cost<br>► Average employment cost per head<br>► Pension provision<br>► Gender diversity | Operating capital employed<br>► Tangible fixed assets<br>► Operating working capital<br>► Capital expenditure<br>► R&D<br>M&A investment<br>Dividends (as alternative use of cash to investment) | Labour productivity<br>Capital productivity | Revenue<br>► Reported<br>► Organic (excluding M&A)<br>Profit, defined as earnings before interest, tax, depreciation and amortisation (EBITDA)<br>► Reported<br>► Organic (excluding M&A) | Net debt | Returns attribution |

Refer to the Basis of findings section for further details on how the performance measures are calculated.

***Notes:***
*Where the sample size permits, measures are reported by sector grouping as well as in aggregate.*
*Many measures are compared with benchmarks of the UK private sector economy and public companies. See section 4 for further details of the methodology.*

# How accurate are the individual portfolio company submissions?

**The portfolio company submissions are drawn from key figures disclosed in the published independently audited annual accounts.**

- The BVCA and EY contacted the PE firms in June 2022 and requested a standard data template to be completed for each portfolio company. For exits, the same data template was updated for the final year of PE ownership, as well as data required to complete the returns attribution analysis. Whilst it is the responsibility of the PE firm to ensure compliance, in many cases, the portfolio company submit the information directly.
- The portfolio companies have annual accounts that have been independently audited (though we note a small number of companies provided data not yet signed off by auditors, e.g., due to delay in the audit process) Completion of the data template drew on information available in company accounts and further information that was prepared from portfolio company and PE firm sources. This data enabled analysis, among other things, of the impact of acquisitions and disposals, and movements in pension liabilities and assets. The data template incorporates several in-built consistency and reconciliation checks, and also requires key figures to be reconciled to figures in the annual accounts.
- The data templates returned to EY were checked for completeness and iterated with the PE firms as required. EY undertook independent checks on a sample of the returns against published company accounts. This found no material discrepancies.
- The data is not adjusted for any periodic changes in accounting policies. Thus, there may be year-on-year differences caused by changes in accounting policies.

## Clarifications on the data used

**Consistency with historical reporting: general**

The data collection process, methodology of analysis, data sources and calculations in this report are materially consistent with historical reporting procedures. Where any deviations occur, this has been referred to as part of the analysis.

The figures presented throughout this report include all the data points provided by the portfolio companies for each analysis. There are instances where it is not possible to include individual companies on specific analysis, (e.g., not provided comparable data in the template or a negative starting figure on growth rates). In order to reflect this, we have presented the n counts in each analysis, where applicable.

For some measures in certain years, the calculated average is affected by the performance of one or two portfolio companies. In a few instances, this is deemed to distort the overall result, in which case the actual result is presented unchanged and a separate bar/line or comment raised in the accompanying text to show the result if the outlier(s) is excluded. Refer to the *Basis of findings* section for further details.

**Consistency with historical reporting: new measures analysed this year**

Data on Number of employees participating in defined contribution scheme and defined benefits scheme collected.

# For further information

| | |
|---|---|
| EY | ▶ James Walker, Partner, Strategy and Transactions, Ernst & Young LLP - jwalker4@uk.ey.com<br>▶ Kelsey Gray, Senior Manager, Strategy and Transactions, Ernst & Young LLP – kelsey.gray@uk.ey.com<br>▶ Disha, Executive, Strategy and Transactions, Ernst & Young LLP – disha@uk.ey.com<br>▶ https://www.ey.com/en_uk/private-equity |
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