Annual report on the performance of portfolio companies, XVII

17th Edition

Reliance restricted

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Ernst & Young LLP
1 More London Place,
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

Foreword

This is the 17th 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 PE 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 PE 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 17 years of reporting; it also contains comparisons with last year’s results and, for some measures, shows time series trends.

This year, the report considers 90 portfolio companies (as defined according to criteria set by the PERG) as at the 2023 financial reporting year (2022: 81), as well as a further 119 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 PE ownership. This year, data was received covering 75 portfolio companies, two companies have provided an explanation for non-compliance, and one has been given a first-year exemption, resulting in a compliance rate of 87% (2022: 83%). On many measures of performance, the data on the current portfolio is combined with data from portfolio companies exited in 2023 and earlier, which provides over 100 data points, typically measuring performance over several years.

With a large number of portfolio companies, a high rate of compliance, and 17 years of information, this report provides 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 Ernst & Young LLP (EY) teams 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. 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

EY

Ernst & Young LLP
1 More London Place,
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

Challenging macro-economic back drop; lower deal volumes

In 2023, the UK and global economies continued to grapple with challenges marked by rising interest rates, persistent inflation, and geopolitical tensions. Central banks, including the Bank of England and the Federal Reserve, kept interest rates high to combat inflation. This helped drive UK inflation down from a peak of 11% in 2022 to 4% in December 2023, though it remained near 6%–8% for much of the year, pressuring households and businesses while dampening consumer spending.

On a geopolitical front, the conflict in Ukraine continued to disrupt energy markets, while US-China tensions created uncertainties in technology and trade, and renewed instability in Israel-Palestine relations fuelled further uncertainty in investor sentiment. These factors, combined with a cautious lending environment and risk aversion in capital markets, led to reduced M&A activity, as investors recalibrated valuations and navigated challenges around affordable financing.

Strong performance on revenue and EBITDA over the long term …

As was the case in 2022, the private equity backed businesses in our sample achieved strong growth across various metrics despite the macro-economic challenges noted above. Our analysis shows that aggregate revenue and EBITDA growth since acquisition for the portfolio companies is 5.8% and 3.3% CAGR respectively in 2023, compared with 7.0% and 4.9% respectively in 2022. Over a longer time period of 10 years, the portfolio companies reported average YoY growth in organic revenue and EBITDA of 5.6% and 7.2% respectively.

... but underperformance relative to benchmark on some metrics

Despite this sustained positive trading growth, private equity backed companies performed below the public and private sector benchmark comparatives in 2023 across certain measures for growth in trading performance, employment, compensation and productivity.

Potential green shoots in 2024 — but political uncertainties remain

Despite the ongoing macro-economic uncertainties and geopolitical risks that continued into 2024, a combination of factors (including lower inflation and cuts in interest rates) show signs of a recovery in investor sentiment, translating into more buoyant levels of M&A activity. However, as 2024 closed political uncertainty has begun to weigh on business confidence and activity - we have seen political instability across Europe (particularly Germany and France) with incumbent governments under pressure, and of course the recent UK and US elections. The slightly more positive economic outlook has therefore been tempered by these ongoing political challenges. It will be important to closely follow how this translates into the performance measures for the private equity backed companies in 2024.

Peter Arnold

Partner, Economic Advisory, Ernst & Young LLP

Table of contents

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 source of information to inform the broader business, regulatory and public debate on the impact of PE ownership, by evidencing if its distinctive features affect the performance of large UK businesses.
- This is the 17th report covering performance data up to a latest date of June 2024. It is written to be read as a stand-alone report with comparisons with prior years' findings included for reference.
- The findings in this report are based on an aggregation of either i) current portfolio companies, and ii) current portfolio companies plus exits. Additionally, certain analysis is divided between the Consumer and non-consumer sectors (i.e., "Sectors other than consumer" aggregated). The basis of the measure being presented is indicated on the top right-hand corner of each respective page.

Introduction

Question		Page no.
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
What period does this report cover?	► Data presented in this report reflects results of companies with a financial year ending between 30 June 2023 and 30 June 2024. The comparative period relates to financial years ending between 30 June 2022 and 30 June 2023.	–
What factors does the reader need to consider?	► Significant dispersions can be seen across the results of portfolio companies, specifically in trading activities. In certain prior years presented in the YoY analysis (between 2020 and 2022), trading results were likely impacted due to the COVID-19 pandemic. ► Comparatives between the aggregated portfolio company performance and the public company benchmarks may be impacted by differences in the sector mix and company size (based on revenue) of the two populations. Additionally, the performance measures for the public company benchmark may benefit from a level of performance bias due to the methodology for calculating the benchmark each year. This is because underperforming companies fall out of the benchmark population if they reduce below the market capitalisation threshold or are delisted.	64-65 55-56
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.	66
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.	67-68
How robust and representative is the data set used in this report?	► This year, data was received covering 75 portfolio companies. In addition, two companies have provided an explanation for non-compliance, and one company has been given a first-year exemption, which results in a compliance rate of 87% (2022: 83%).	69-71
What are the time period and coverage of the measures used to evaluate performance?	► The two main measures used in this report cover i) the entire period of PE ownership of all the portfolio companies (including past exits), i.e., from initial acquisition to latest date or exit, and ii) 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. ► The data returned to EY teams is checked for completeness and iterated with the portfolio companies or PE firms as required.	74

How robust is the data set used in this report?

Portfolio companies (as at 30 June 2024)

Portfolio company	General partner (s)
Advanced Computer Systems/ACS	BC Partners
Alcumus Group Ltd	Apax Partners
Alexander Mann Solutions [2]	OMERS PE
Ambassador Theatre Group	Providence Equity Partners
Ascot Lloyd	Nordic Capital
ASDA	TDR Capital
Automobile Association (AA)	Towerbrook Partners
Bourne Leisure	Blackstone
BPP [1]	TDR Capital
Care UK	Bridgepoint
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)	TDR Capital
David Lloyd Leisure	TDR Capital
Davies Group	BC Partners
Domestic and General Group	CVC Capital Partners
DWF Group [1]	Inflexion Capital
Edinburgh Airport	Global Infrastructure Partners
ESP Utilities	3i
esure group	Bain Capital
Evri (previously Hermes)	Advent International
Farnborough Airport	Macquarie
Froneri (RR Ice-cream)	PAI Partners
Gresham House [1]	Searchlight Capital Partners
HC-One	Safanad/Formation Capital
Homeserve [1]	Brookfield

Portfolio company	General partner (s)
Huws Gray	Blackstone
Hyperoptic	KKR
Infinis	3i
Instavolt	EQT
IRIS Software Group	Hg Capital / ICG
JLA	Cinven Limited
K3 Capital [3]	Sun Capital Partners/European Partners
Kantar plc	Bain Capital
KCOM	Macquarie
LGC	Cinven Limited
M Group Services	PAI Partners
Medica Group [1]	IK Partners
Medivet Group Ltd	CVC Capital Partners
Merlin Entertainments	Blackstone
Modulaire Group [1]	Brookfield
Morrisons	Clayton Dubiler & Rice
Moto (owned with USS)	CVC Capital Partners
Motor Fuel Group / MFG	Clayton Dubiler & Rice
MyDentist	Palamon Partners
Network Plus Services [2]	OMERS PE
NewDay (owned with CVC)	Cinven Limited
OCS Facilities [1]	Clayton Dubiler & Rice
Parkdean Holidays	Onex
Peel Ports Group [1]	Global Infrastructure Partners
PIB	Apax Partners
Premium Credit	Towerbrook Partners
QA Training	CVC Capital Partners
RAC	CVC Capital Partners
RoadChef Motorways	Macquarie
Rubix	Advent International

Notes: [1] Company is new to population; [2] Company provided an explanation for non-compliance; [3] First year exemption provided

How robust is the data set used in this report? (cont.)

Portfolio companies (as at 30 Jun 2024) (cont.)

Portfolio company	General partner (s)
Shawbrook Bank	BC Partners
Stagecoach Group	DWS Alternatives Global
Stonegate Pub	TDR Capital
Study Group International	Ardian
Sureserve Group [1]	Cap10
Sykes Holiday Cottages	Vitruvian
Ultra	Advent International
VetPartners	BC Partners
Village Hotels	KSL Capital
Viridian (now Energia group)	iSquared Capital
Viridor Limited	KKR
Williams Lea Tag	Advent International
Witherslack	Mubadala Capital
Wolseley [1]	Clayton Dubiler & Rice
WSH (Westbury Street Holdings)	Clayton Dubiler & Rice
Zellis	Bain Capital
Zenith	Bridgepoint
ZPG	Silver Lake

Note: 12 portfolio companies (and General partners) have not complied with the reporting requirements for the financial year 2023 study. Refer to the 17th Annual PERG report for further details of the names of these portfolio companies.

Exits of portfolio companies during the year to 30 June 2024

Portfolio company	General partner (s)
Travelodge	Goldman Sachs
Camelot	Ontario
Global Risk Partners Limited	Searchlight Capital Partners

The above exited portfolio companies are non-compliant in the study this year.

Notes: [1] Company is new to population; [2] Company provided an explanation for non-compliance; [3] First year exemption provided

2

Summary findings

Summary findings

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 6.0 years (2022: 5.9 years) for historical exits, i.e., from initial acquisition to exit. The current portfolio companies have been owned for an average of 5.0 years (2022: 4.4 years).	16
Do PE-owned companies grow?	► The portfolio companies have increased reported revenue at 5.8% CAGR since acquisition (2022: 7.0%) and EBITDA at 3.3% CAGR (2022: 4.9%); organic revenue and EBITDA has increased at 4.3% and 2.6% CAGR respectively since acquisition (2022: 5.7% and 3.2%). ► Revenue growth for the portfolio companies is 5.8%, which is slightly below the public company benchmark of 6.1%, whilst EBITDA growth of 3.3% compared with 7.5% for the public company benchmark. The revenue and EBITDA growth rates are materially impacted by two current portfolio companies (which also impact the weighting of the benchmark). Excluding these two portfolio companies, the revenue growth rate for the portfolio companies is 6.8% versus the weighted benchmark of 4.5% and the EBITDA growth rate is 5.2% versus 6.3% for the weighted benchmark. ► In 2023, portfolio companies reported YoY growth in organic revenue (1.4%) and EBITDA (7.6%) which is more closely in line with YoY growth levels in previous years of the study before 2020. On average over the past 10 years, portfolio companies reported YoY growth in organic revenue and EBITDA growth of 5.6% and 7.2% respectively. ► There is a wide range of results in 2023 for long-term trading performance at a sector and company level. In the current portfolio companies, reported revenue growth for the Sectors other than consumer was higher than both the Consumer sector and the public company benchmark	17–26
Do portfolio companies create jobs?	► Reported employment under PE ownership has increased by 1.8% (2022: 2.0%) per annum since acquisition. Underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) is flat in 2023, in comparison with 0.7% growth in 2022. ► Annual organic employment growth (CAGR) of the portfolio companies is flat in 2023 (versus the private sector benchmark growth at 0.8%) and on a reported basis is lower than the public company benchmark (1.8% versus 2.2%). ► Organic YoY employment growth in the current portfolio companies is at 0.4%, which is lower than the ONS private sector benchmark of 0.8% for the same period. On average over the past 10 years, portfolio companies reported YoY organic employment growth of 1.4% which is higher than the comparative for the ONS private sector benchmark at 1.1%. ► At the sector and company level, there is a wide range of YoY growth in organic employment (-4.8% to 6.3%). The Infrastructure and Other sectors were higher than the remaining sectors in terms of YoY organic employment growth and the Consumer sector was higher than the ONS private sector benchmark.	27-30

Summary findings (cont.)

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 2.4% per annum under PE ownership (2022: 2.7%). ► Average annual employee compensation growth under PE ownership of 2.4% is lower than the UK private sector benchmark of 4.4% CAGR. ► Average employment cost per head increased YoY by 3.3% in 2023 compared with 2022, which is slightly lower than the UK private sector benchmark of 3.6% growth over the same period. ► Around 17% (2022: 28%) of jobs in the portfolio companies (which will include both part-time and full-time jobs) have annual compensation of less than £12,500, an improvement vs. the proportion in the prior year (28%). This compensation band mix may be attributed to the mix of full-time versus part-time workers. Out of 75 current portfolio companies, 43 companies provided data for part time workers in 2023, with 43% of headcount being part-time. ► 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 lower than the value of assets; the average time to pay off the deficit is estimated as 3.5 years (2022: 4.8 years).	31-37
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. ► The YoY increase in operating capital employed for the portfolio companies was 6.7% in 2023, slightly lower than the comparative 8.1% increase in 2022. ► Of the current portfolio companies, 60% have made net bolt-on acquisitions whilst 15% have made net partial disposals, showing investment in bolt-on acquisitions ahead of partial disposals (2022: 61% and 12% respectively). ► PE investors, in aggregate, have used free cash flow and additional third-party debt to increase investment in the current portfolio companies.	38–41

Summary findings (cont.)

Question	Key findings	Page no.
How does labour and capital productivity change under PE ownership?	► Labour productivity growth YoY for portfolio companies has remained consistent at (i) 4.2% (2022: 4.2%) as measured by growth in EBITDA per employee, and (ii) 3.0% (2022: 3.0%) as measured by growth in Gross Value Added (GVA) per employee. ► Annual increase in labour productivity in the portfolio companies is lower than i) the public benchmark for EBITDA per employee (at 4.2% versus 9.3%) and, ii) the UK private sector benchmark for GVA per employee (at 3.0% versus 3.2%). ► GVA per employee of portfolio companies increased YoY by 3.4% in 2023, which is lower than the UK private sector benchmark of 4.9% per annum (2022: 6.2%). ► Capital productivity growth in the portfolio companies exceeds public company benchmarks, at 9.2% versus 5.0% growth per annum (2022: 11.9% versus 1.0%). Capital productivity growth for portfolio companies was higher than the public company benchmark in every year of the study (from the time this metric has been reported on).	42–46
What are the levels of financial leverage in portfolio companies?	► In aggregate, combined current plus exited portfolio companies had an average leverage ratio of 6.5x gross debt to EBITDA at acquisition compared with an average leverage ratio of 6.8x at latest date or exit (2022: 6.5x and 6.9x respectively). ► The current portfolio companies show an increase in leverage under PE ownership, indicating that debt has grown at a slightly higher rate than the growth in profit. ► In aggregate, current portfolio companies had an average (net) leverage ratio of 5.9x net debt to EBITDA at acquisition compared with an average (net) leverage ratio of 6.8x at latest date or exit.	41,47–48
What is the level of gender diversity in the portfolio companies?	► Female representation is 47% (2022: 51%) at an overall employee level across the current portfolio companies and 22% (2022: 20%) at the director level. 36% (2022: 40%) of FTSE 250 board positions are held by females (source: Hampton-Alexander Review, Feb, 2024).	49

Summary findings (cont.)

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 Returns analysis remains unchanged compared with the previous year's (2022) report, as there are no additional compliant exits this year. ► The equity return from portfolio company exits is 3.0x (2022: 3.0x) the public company benchmark; c.41% of the additional return is attributed to PE strategic and operational improvement, and the balance from additional financial leverage. ► Whilst the results vary over time, the component of the gross return from PE strategic and operational improvement has increased in recent years.	50-51

In aggregate, the portfolio companies under PE ownership have shown positive absolute growth in measures across trading performance (revenue and EBITDA), investment and productivity. The portfolio companies have also experienced YoY growth in trading, compensation, investment and productivity measures in the last financial year.

In 2023, the portfolio companies performed lower than the benchmark comparatives for long-term (since acquisition) and YoY growth measures for revenue, EBITDA, employment, compensation and labour productivity. At a sector level, the Sectors other than consumer were higher than the public and private sector benchmark in terms of revenue growth, and the Consumer sector was higher than the private sector benchmark in terms of revenue growth.

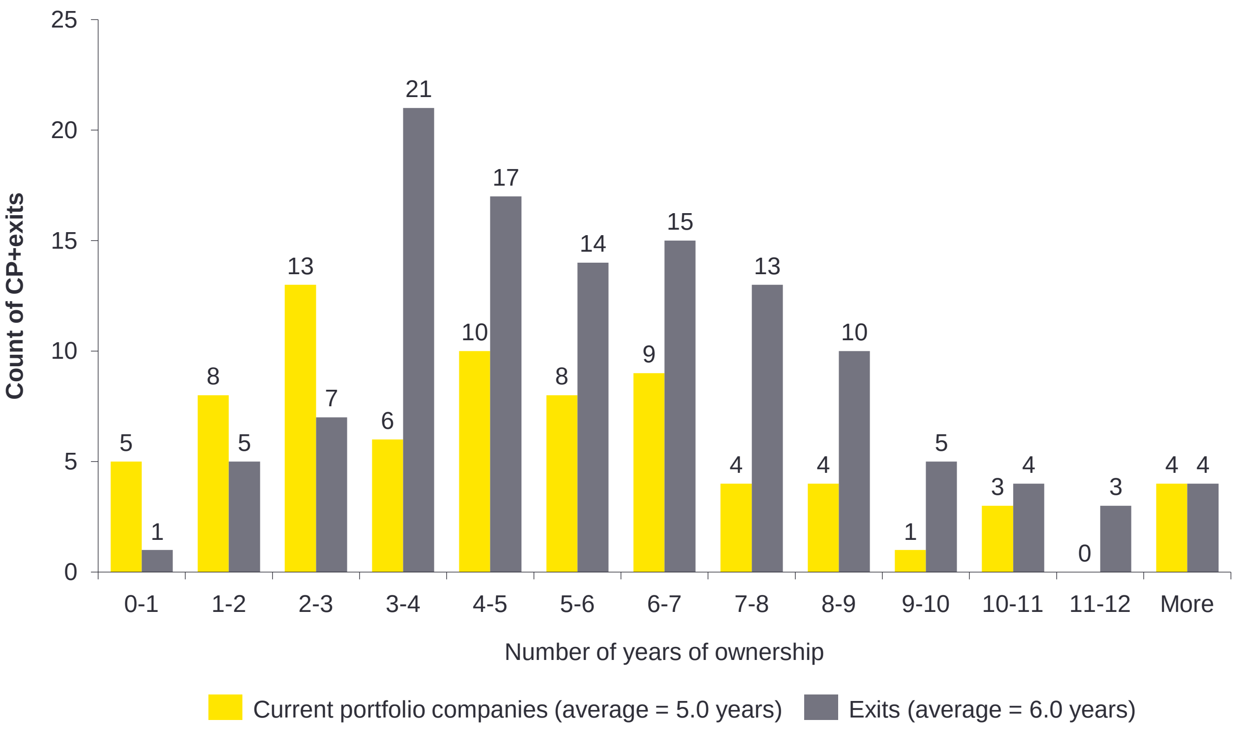
3

Detailed findings

How long does PE invest in the portfolio companies?

Average timeframe of PE investment in the portfolio companies which have exited is 6.0 years, i.e., from initial acquisition to exit. Current portfolio companies have been owned for an average of 5.0 years

Distribution of years of ownership of portfolio companies



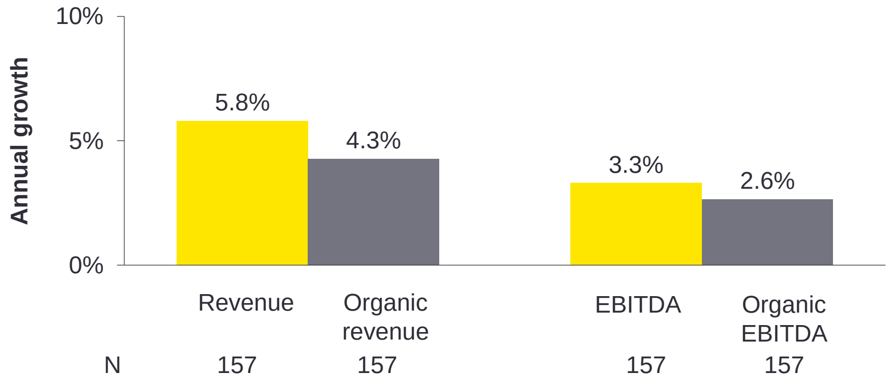
Note: The data set for most metrics in this report begins in 2007. Additional data for portfolio company exits includes investments realised starting in 2005.

- The PE business model seeks to achieve an investment return to its investors (pension funds, insurance funds, etc.) by realising greater equity proceeds than its initial equity investment at the time of acquisition. This may come from (amongst other levers) increasing earnings through the investment hold period and achieving higher exit multiples.
- The PE business model is long term:
  - For the 119 portfolio companies that have been exited since 2005, the average length of ownership is 6.0 years.
  - For the current group of 75 portfolio companies, the average active length of PE ownership is 5.0 years at 30 June 2024.
  - For the portfolio companies exited in 2023, the average hold period was 8.1 years (2022: 8.0 years).
- Looking at the profile of the historical exits as the best measure of the length of PE ownership, of the 119 exits, 89% were owned for more than three years, and 57% were owned for more than five years.

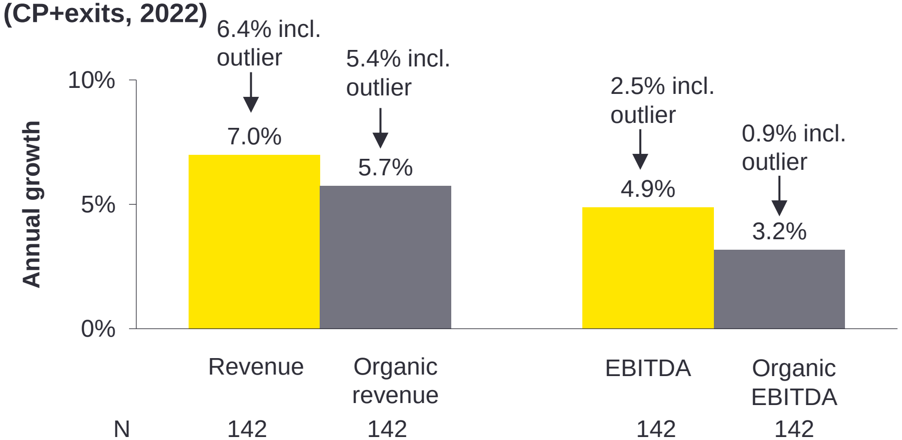
Do PE-owned companies grow?

Revenue growth since acquisition in the portfolio companies is 5.8% in 2023 (7.0% in 2022), whilst EBITDA since acquisition increased at 3.3% (4.9% in 2022)

Reported and organic revenue and EBITDA growth* since acquisition (CP+exits, 2023)



Reported and organic revenue and EBITDA growth since acquisition (CP+exits, 2022)



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 5.8% for revenue and 3.3% for EBITDA.
- Organic revenue and profit (EBITDA) growth rates (excluding the effect of bolt-on acquisitions and partial disposals) is 4.3% and 2.6% CAGR respectively. As with other measures, there is variation by sector and within sectors, with the Other, Infrastructure, Health care and Technology sectors showing the highest organic revenue growth rates within a range of c.5.5% to c.7.5%.
- The trend differs sightly at a profit level, with the Technology sector showing the highest organic EBITDA growth rate since acquisition of 7.4%, whilst the remaining sectors achieved organic EBITDA growth ranging between c.1.5% to c.4.6%.

Organic revenue and EBITDA growth* since acquisition – by sector

Sector	Organic revenue growth (CP+exits)	Organic EBITDA growth (CP+exits)
Industrial	3.8%	2.8%
Consumer	3.8%	2.2%
Health care	5.5%	4.6%
Infrastructure	6.9%	1.5%
Technology	5.7%	7.4%
Other	7.5%	2.2%

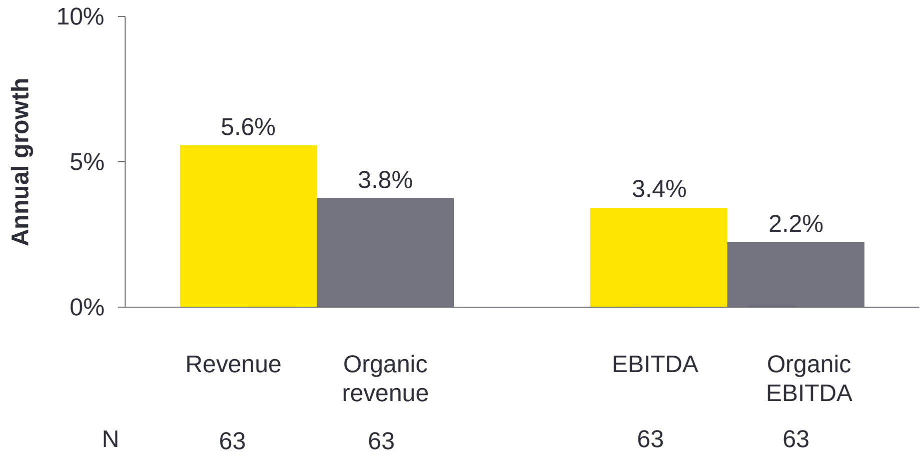
Note: Other is largely comprised of financial sector companies.

* *Throughout this report, the measure of growth since acquisition represents a compound annual growth rate.*

Do PE-owned companies grow? (cont.)

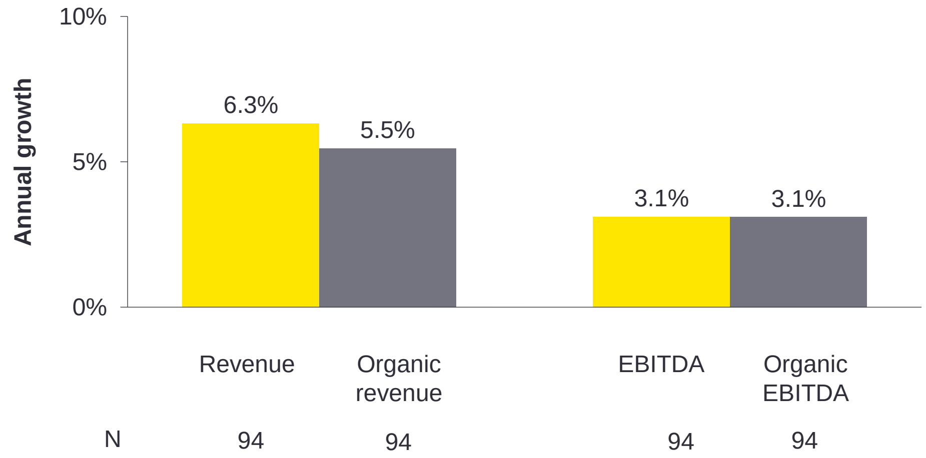
Sectors other than consumer (in aggregate) generated higher organic revenue and EBITDA growth than the Consumer sector. Organic revenue growth was 5.5% versus 3.8% and organic EBITDA growth was 3.1% versus 2.2% respectively

Reported and organic revenue and EBITDA growth since acquisition (CP+exits, Consumer sector, 2023)



- The Consumer sector reported revenue and EBITDA annual growth over the entire period of private ownership to date is 5.6% and 3.4% respectively.
- Organic revenue and EBITDA annual growth (excluding the effect of bolt-on acquisitions and partial disposals) is 3.8% and 2.2% respectively.

Reported and organic revenue and EBITDA growth since acquisition (CP+exits, Sectors other than consumer, 2023)



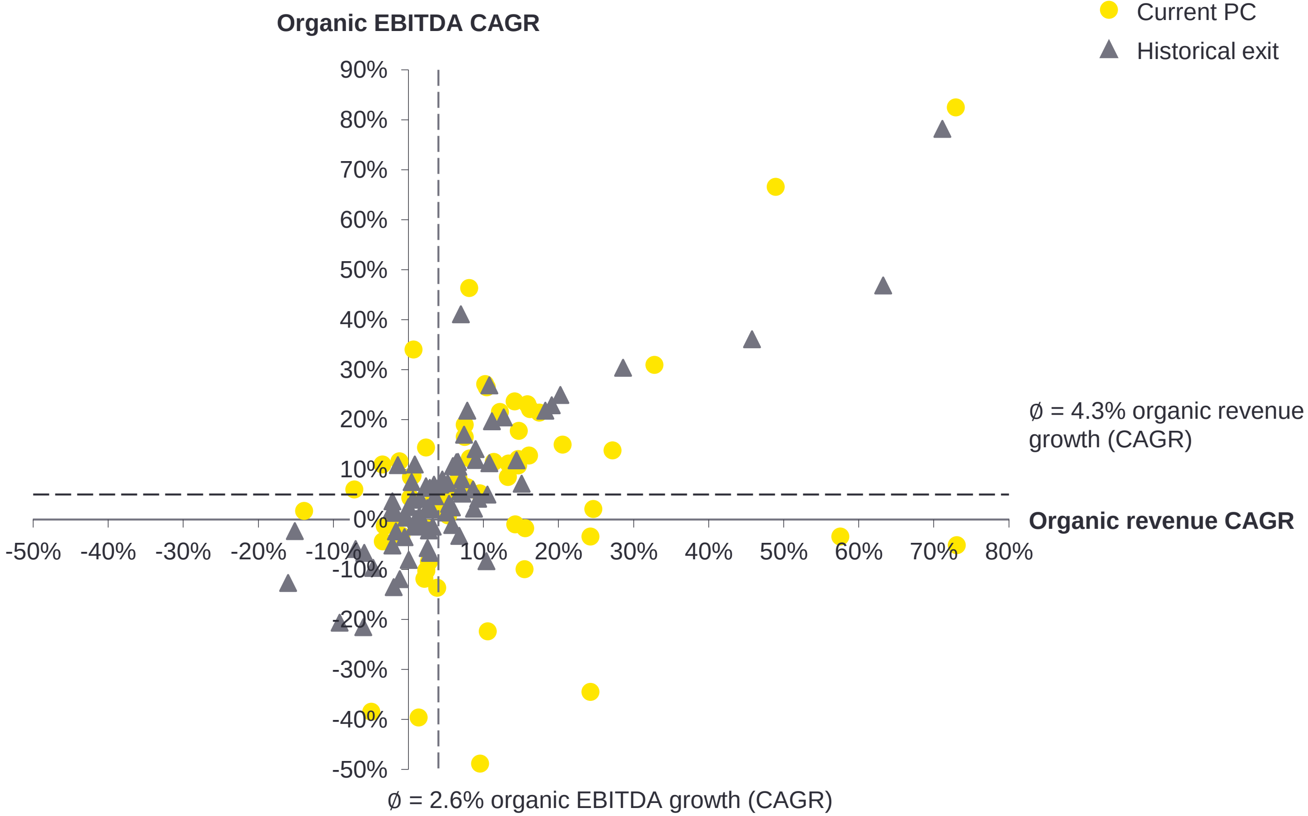
- Sectors other than consumer comprises Industrials, Health care, Infrastructure, Technology and Other sector companies.
- Reported revenue and EBITDA annual growth over the entire period of private ownership to date is 6.3% and 3.1% respectively.
- Organic revenue and EBITDA annual growth is 5.5% and 3.1% respectively.

Do PE-owned companies grow? (cont.)

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.

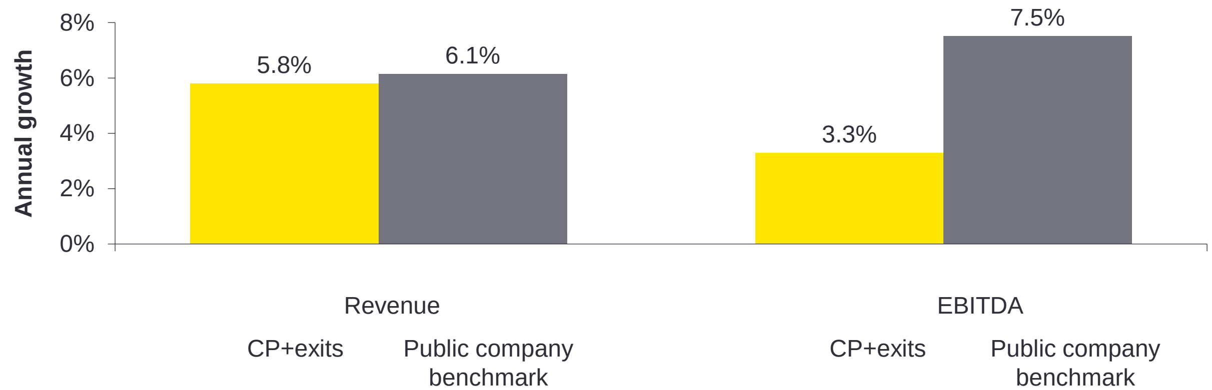


- The chart shows the data points of organic revenue and EBITDA growth for each of the current portfolio companies and historical exits, measured as the CAGR from acquisition to latest date or exit. This shows a wide range of outcomes around the average results.
- There are 89 portfolio companies with both positive organic revenue and EBITDA growth and 17 portfolio companies with both negative organic revenue and EBITDA growth.
- Individual portfolio company performance is affected by many factors, external and internal to the business. Not all portfolio companies grow under PE ownership, but 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.

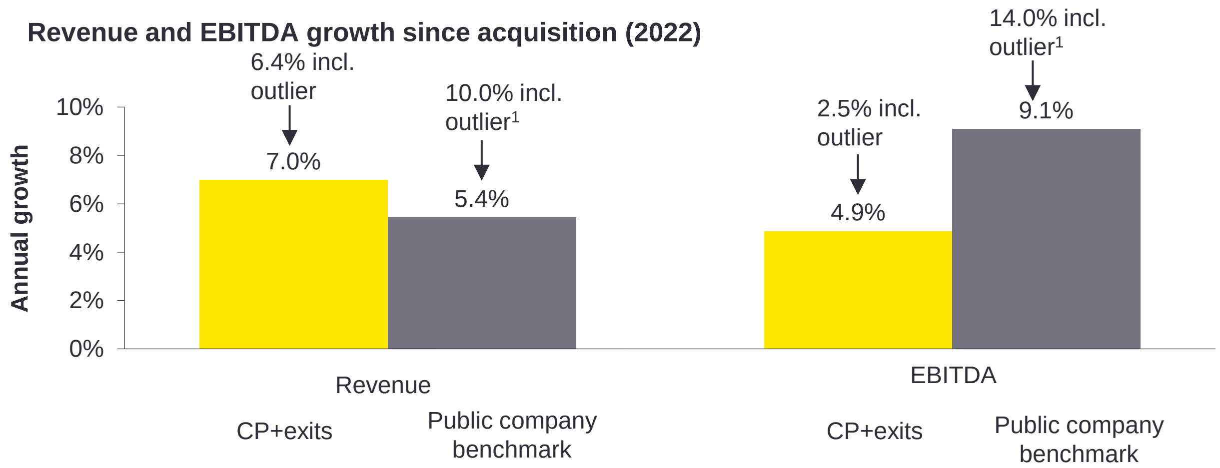
Do PE-owned companies grow? (cont.)

Revenue growth for the portfolio companies is 5.8%, which is slightly below the public company benchmark of 6.1%, whilst EBITDA growth of 3.3% compared with 7.5% for the public company benchmark

Revenue and EBITDA growth since acquisition (2023)



Revenue and EBITDA growth since acquisition (2022)



1. *Note the public company benchmark is calculated on a weighted average basis with weighting based on pro forma EBITDA of the portfolio companies in the year of acquisition.*

- Reported revenue performance for the portfolio companies since acquisition is slightly lower than the public company benchmark. The revenue growth rate of portfolio companies (5.8%) is materially impacted by two current portfolio companies. Excluding these two PCs, the growth rate is 6.8%, and the weighted benchmark would reduce to 4.5% (from 6.1%).
- The EBITDA growth rate of portfolio companies in 2023 (3.3%) is materially impacted by two current portfolio companies. Excluding these two PCs, the growth rate is 5.2%, and the weighted benchmark would reduce to 6.3% (from 7.5%).
- The long-term (since acquisition) growth rate of portfolio companies in 2023 is slightly lower than the 2022 comparative which reflected revenue growth at 7.0% and EBITDA growth at 4.9%.

Revenue and EBITDA growth – by sector

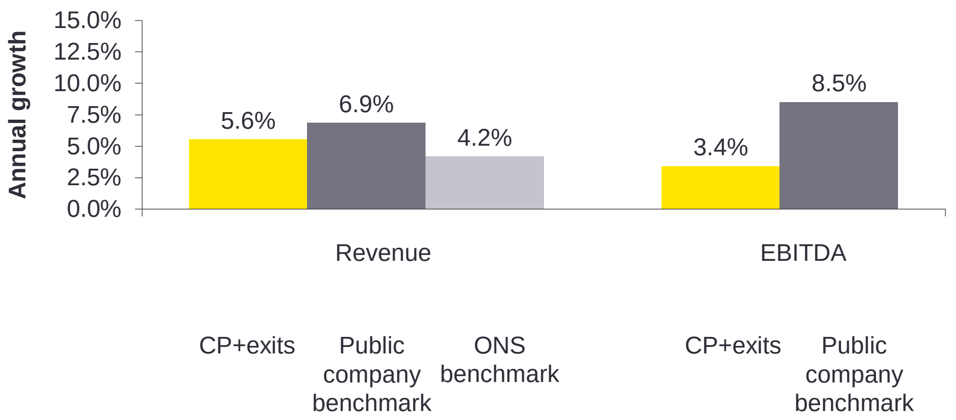
	Portfolio companies (CP + exits)		Public company benchmark	
Sector	Revenue	EBITDA	Revenue	EBITDA
Industrials	4.1%	(2.1%)	3.4%	2.8%
Consumer	5.6%	3.4%	6.9%	8.5%
Healthcare	8.8%	8.3%	5.3%	3.0%
Infrastructure	8.2%	1.8%	6.2%	5.0%
Technology	6.9%	11.7%	3.3%	5.4%
Other	8.0%	6.3%	5.6%	17.1%

- The Other sector within the public company benchmark reflects growth at 17.1%, which is primarily a factor of outperformance achieved by insurance companies included within it, noting the benchmark has a higher insurance sub-sector mix compared with the portfolio companies.

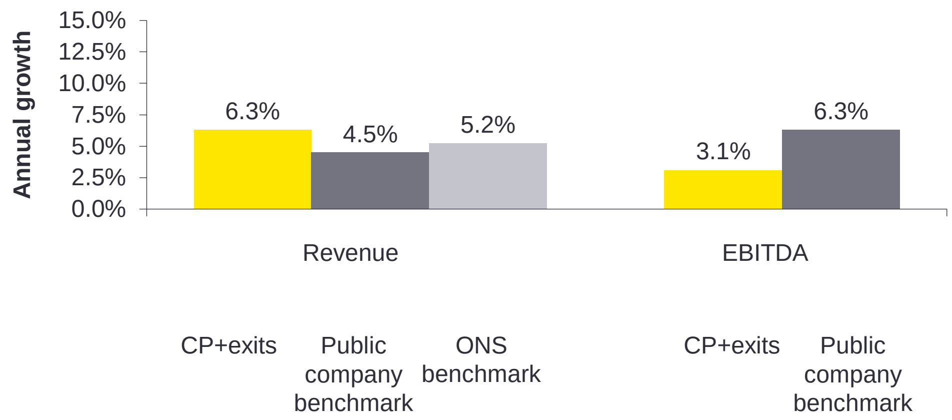
Do PE-owned companies grow? (cont.)

Revenue growth for the Consumer sector is below the public company benchmark but higher than the ONS benchmark. For Sectors other than consumer, revenue growth is higher than both the public company benchmark and the ONS benchmark. EBITDA growth is below the public company benchmark for both the Consumer sector and Sectors other than consumer

Revenue and EBITDA growth since acquisition (CP+exits, Consumer sector, 2023)



Revenue and EBITDA growth since acquisition (CP+exits, Sectors other than consumer, 2023)



- Reported revenue performance of the Consumer sector portfolio companies (since acquisition) of 5.6% is lower than the public benchmark of 6.9%, however is higher than the private (ONS) company benchmark of 4.2%.
- Reported EBITDA performance of the Consumer sector portfolio companies of 3.4% is below the public company benchmark of 8.5%.

Note: The overall public company benchmark result is aggregated in the same way as for the portfolio companies, i.e., using the same weighting factors. Refer to page 56 for the benchmark's basis of preparation.

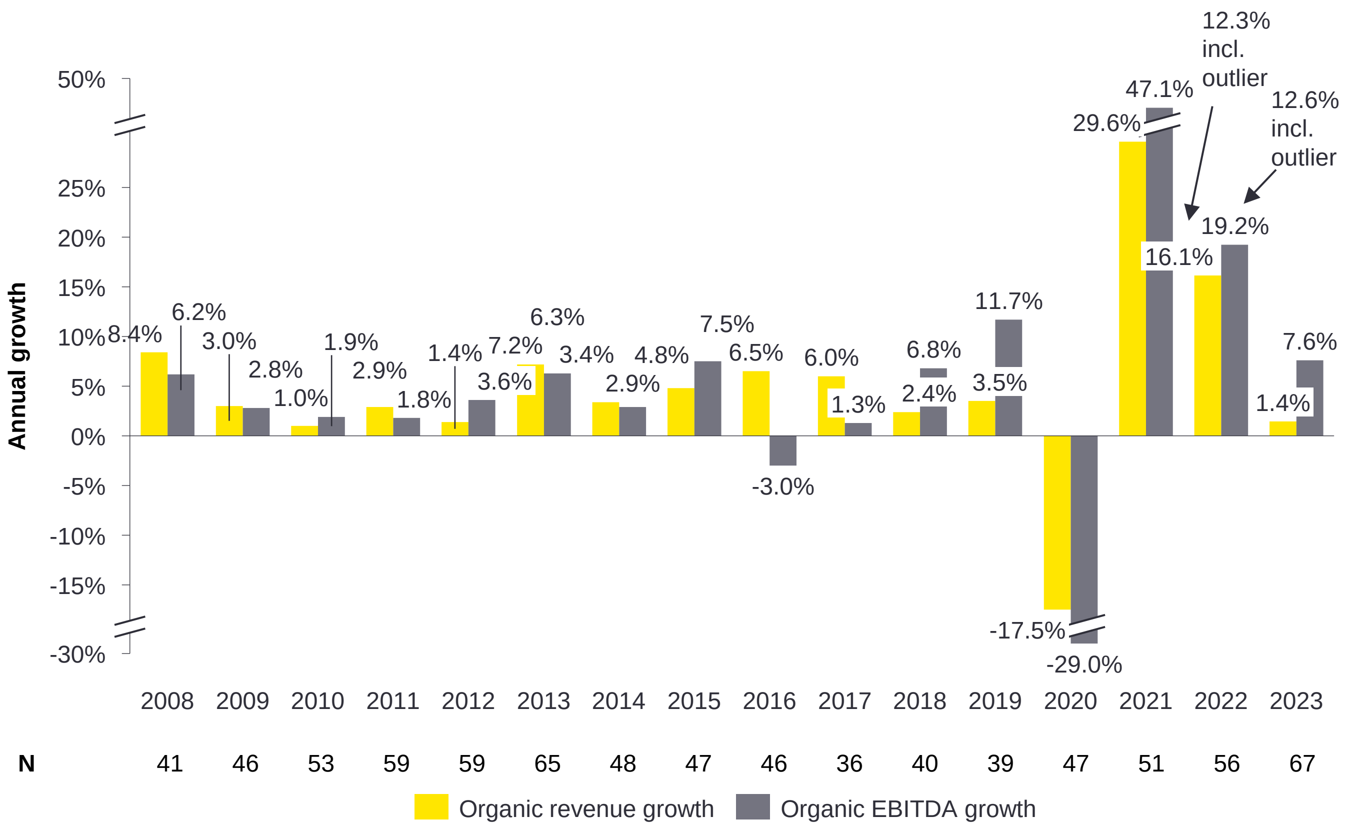
Note: ONS does not track information on EBITDA.

- Reported revenue performance of the portfolio companies within the Sectors other than consumer of 6.3% is above the public and private (ONS) company benchmarks of 4.5% and 5.2% respectively.
- Reported EBITDA performance (since acquisition) of the portfolio companies within the Sectors other than consumer of 3.1% is below the public company benchmark of 6.3%.

Do PE-owned companies grow? (cont.)

In 2023, current portfolio companies reported YoY growth in organic revenue (1.4%) and EBITDA (7.6%) which is more in line with periods prior to 2020

YoY organic revenue and EBITDA growth of current portfolio companies

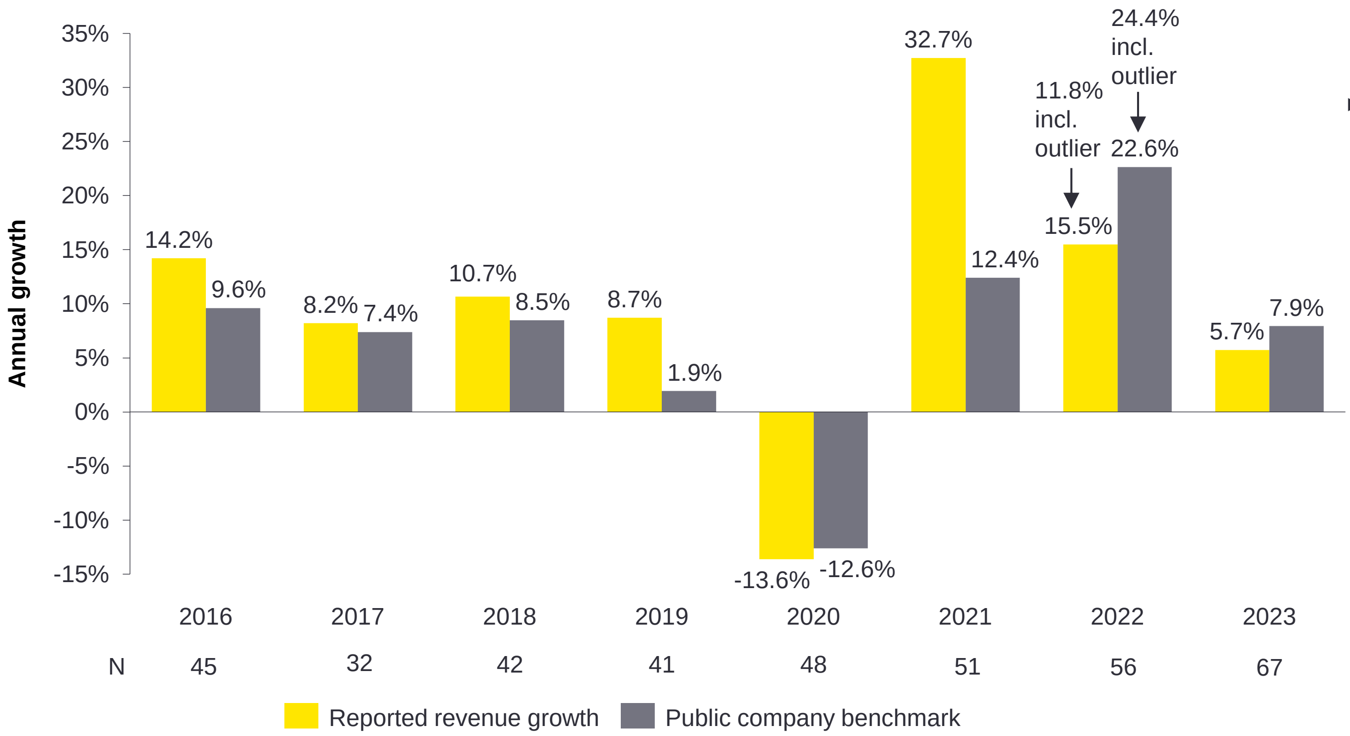


- YoY growth in organic revenue and profit for the current portfolio companies in 2023 is 1.4% and 7.6% respectively.
- 2021 and 2022 represent significant growth likely in part due to the reversal of the impact of the COVID-19 pandemic on businesses in 2020.
- On average over the past 10 years, portfolio companies reported YoY growth in organic revenue and EBITDA growth of 5.6% and 7.2% respectively.

Do PE-owned companies grow? (cont.)

YoY reported revenue growth of the portfolio companies is below the public company benchmark in 2023

YoY reported revenue growth of current portfolio companies versus PLC benchmarks – all sectors



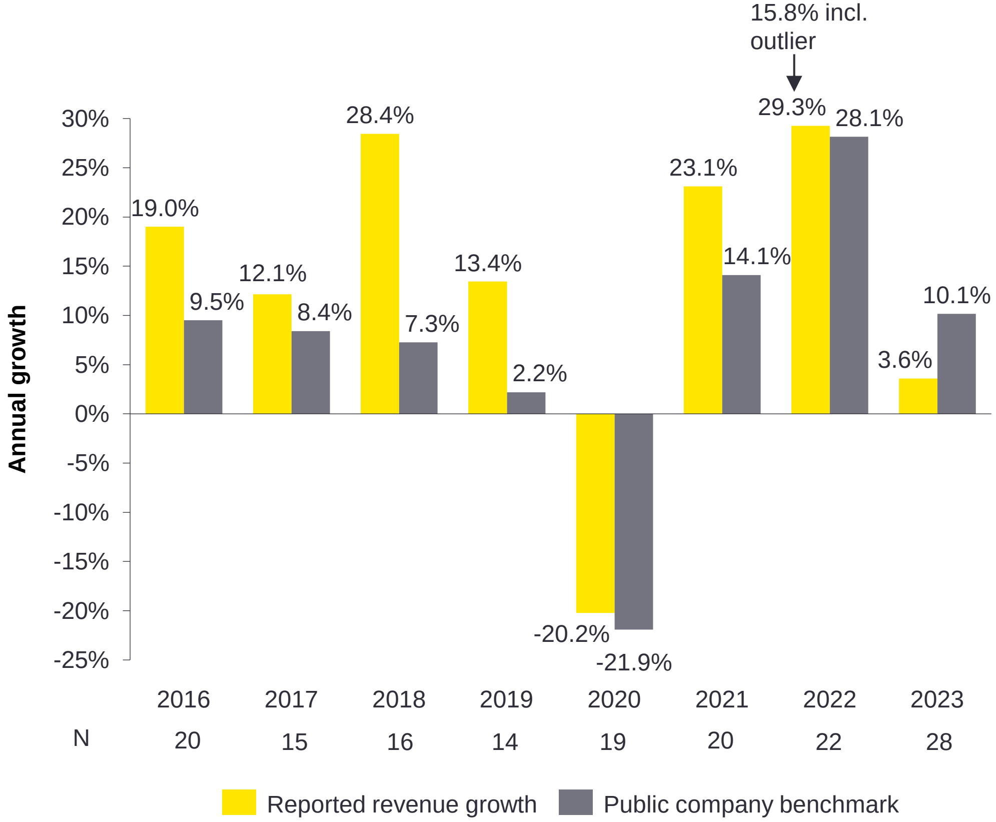
- YoY growth in reported revenue for the current portfolio companies is 5.7% in 2023, which is below the public company benchmark of 7.9%.
- 2021 and 2022 represent significant growth likely in part due to the reversal of the impact of the COVID-19 pandemic on businesses in 2020.
- On average over the past eight* years, reported YoY revenue growth of portfolio companies (10.3%) was higher than the public company benchmark (7.2%).

* *Note: This analysis has only been prepared for the past eight years, hence we calculate the eight-year average. This is applicable throughout the report where we reference the eight-year average growth rate.*

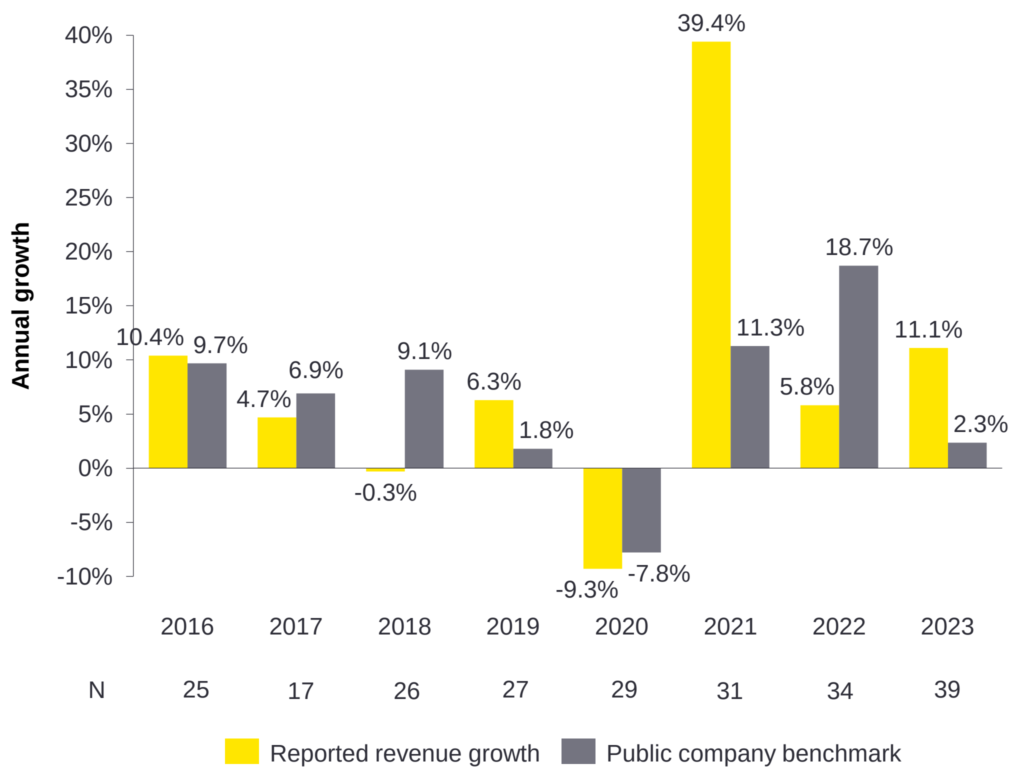
Do PE-owned companies grow? (cont.)

YoY reported revenue growth of the portfolio companies in the Consumer sector was lower than the public company benchmark. Sectors other than consumer revenue growth was higher than the public company benchmark

YoY reported revenue growth of current portfolio companies versus PLC benchmarks – Consumer sector



YoY reported revenue growth of current portfolio companies versus PLC benchmarks – Sectors other than consumer

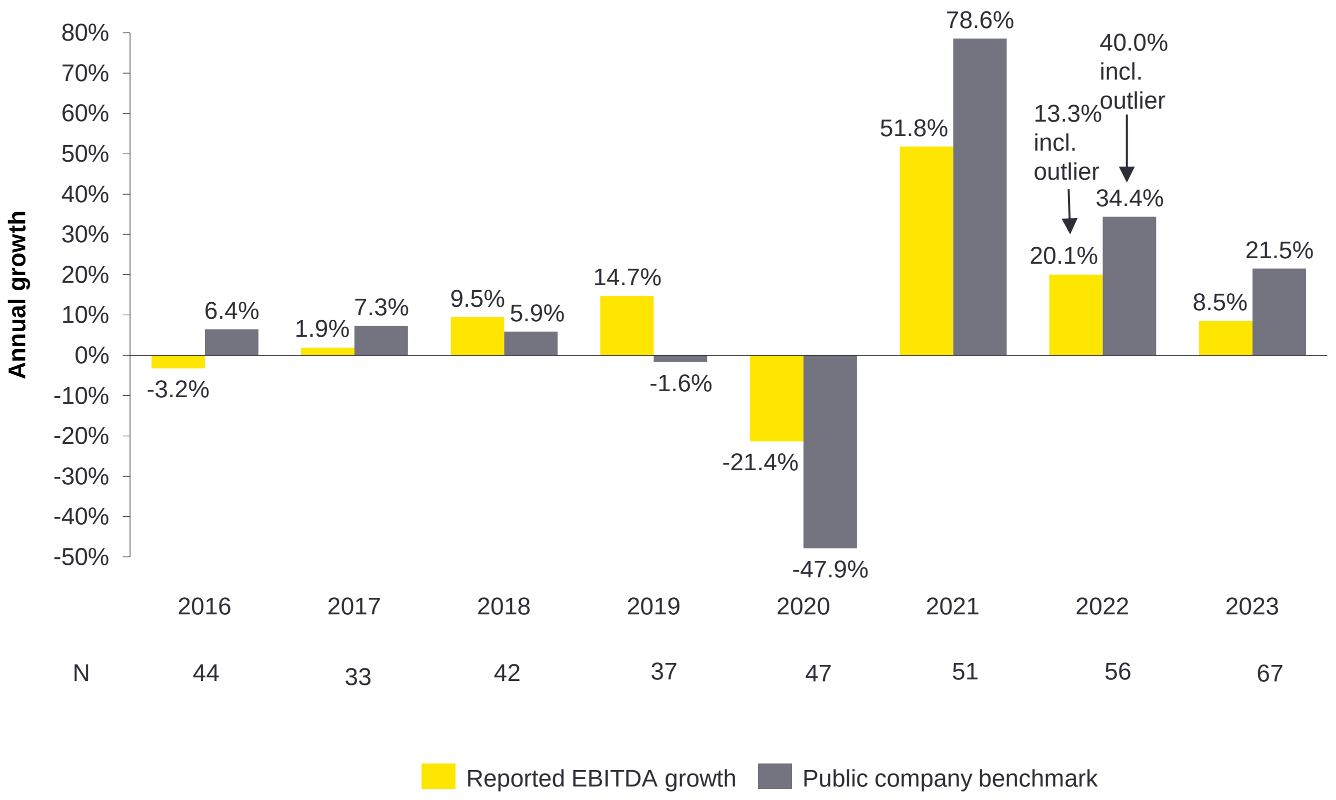


- On average over the past eight years, reported YoY revenue growth of portfolio companies was higher than the public company benchmark for both the Consumer sector (13.6% versus 7.2%) and Sectors other than consumer (8.5% versus 6.5%).

Do PE-owned companies grow? (cont.)

YoY reported EBITDA growth of the portfolio companies is lower than the public company benchmark in 2023

YoY reported EBITDA growth of current portfolio companies versus PLC benchmarks – all sectors

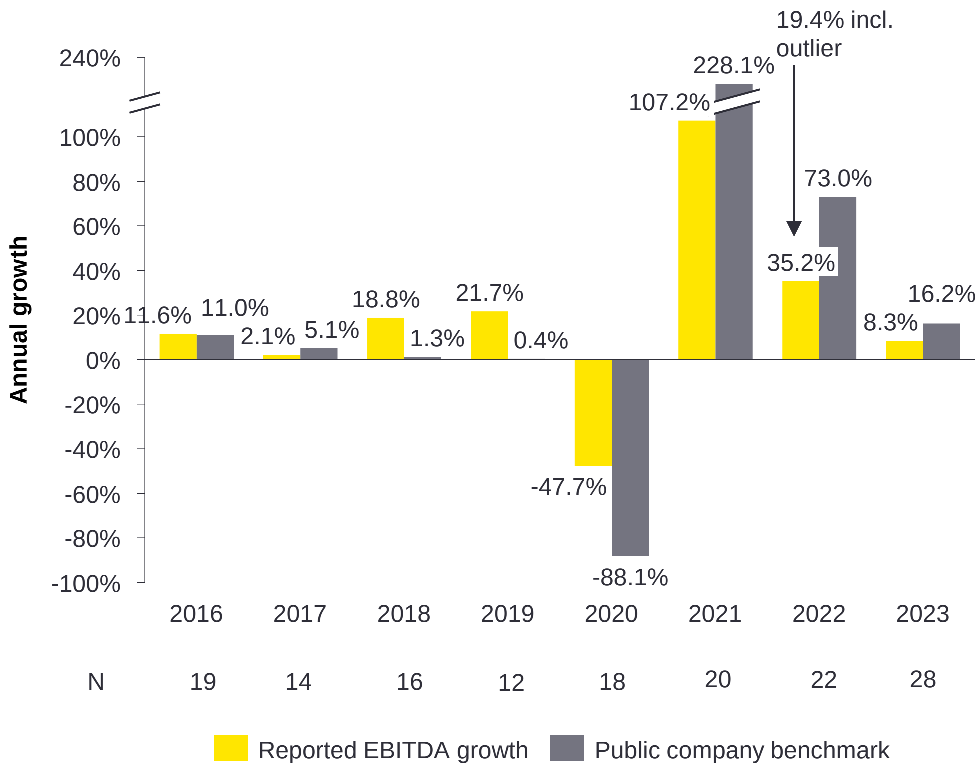


- YoY growth in reported EBITDA for the current portfolio companies is 8.5% in 2023, which is below the public company benchmark of 21.5%.
- 2021 represents significant growth likely in part due to the reversal of the impact of the COVID-19 pandemic on businesses in 2020, and this recovery appears to have continued to some extent in 2022.
- On average over the past eight years, reported YoY EBITDA growth of portfolio companies (10.2%) was lower than the public company benchmark (13.1%).
- As shown in the table on page 20, the Other sectors in the public company benchmark achieved high growth in 2023 which is mainly attributable to insurance companies included in the benchmark.

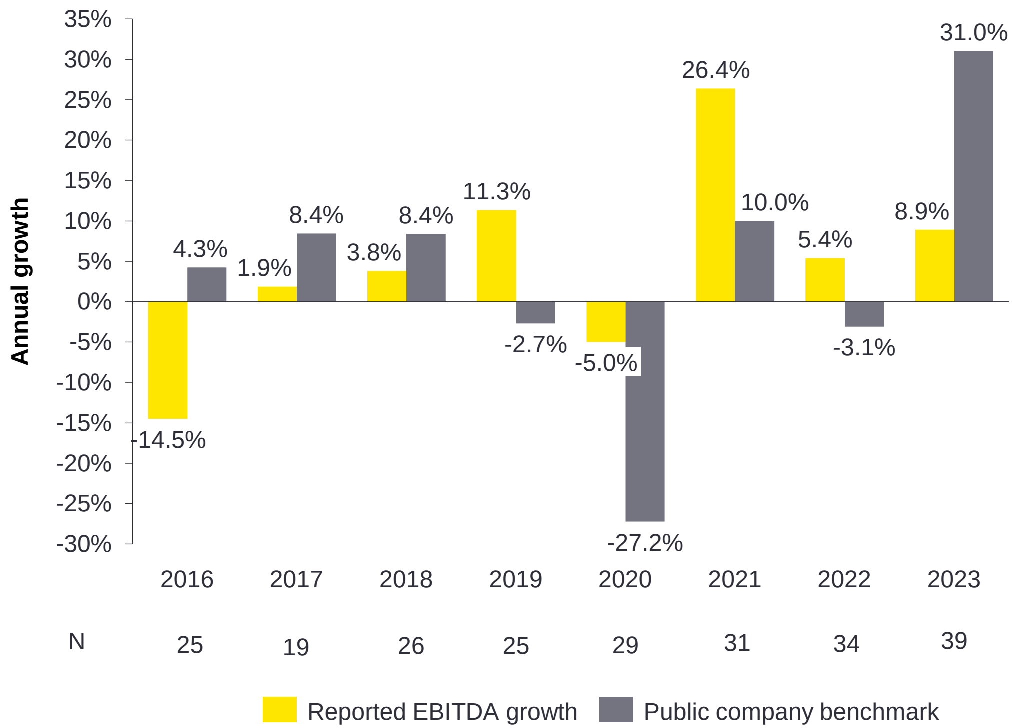
Do PE-owned companies grow? (cont.)

YoY reported EBITDA growth of the portfolio companies in the Consumer sector and Sectors other than consumer was lower than the public company benchmark in 2023

YoY reported EBITDA growth of current portfolio companies versus PLC benchmarks – Consumer sector



YoY reported EBITDA growth of current portfolio companies versus PLC benchmarks – Sectors other than consumer

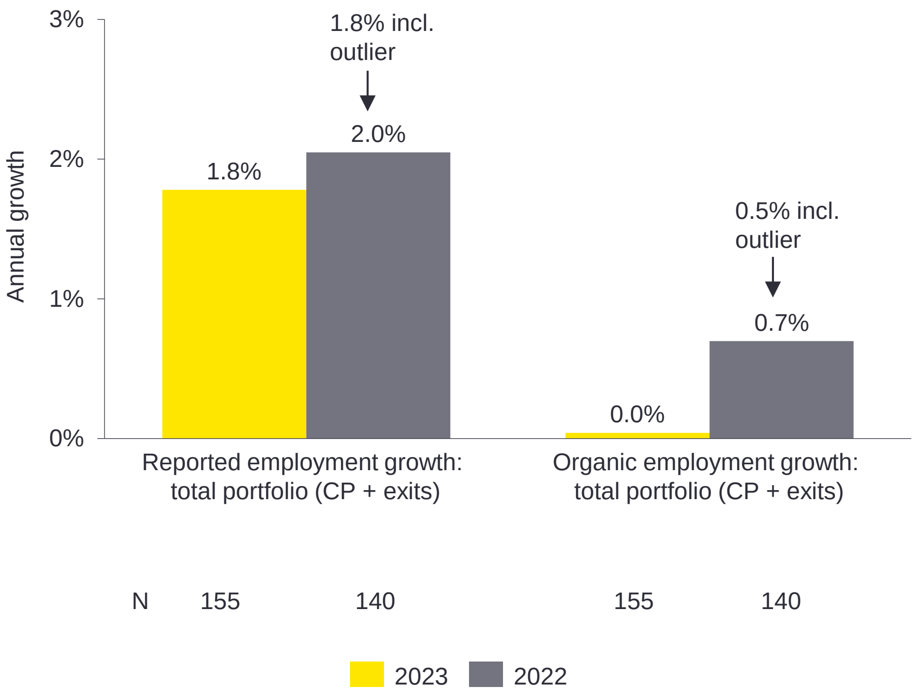


- On average over the past eight years, reported YoY EBITDA growth of portfolio companies was lower than the public company benchmark for the Consumer sector (19.6% versus 30.9%), whilst for Sectors other than consumer, average growth was higher than the public company benchmark (4.8% versus 3.6%).

Do portfolio companies create jobs?

Reported employment under PE ownership has increased by 1.8% per annum. Underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) is flat in 2023 in comparison with 0.7% growth in 2022

Reported employment growth and organic employment growth



- Reported growth of 1.8% 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 portfolio companies will be 2023).
- 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 flat.
- There are large movements at an individual portfolio company level.
- Organic employment growth differs across sectors, with Infrastructure reflecting the highest long-term growth.

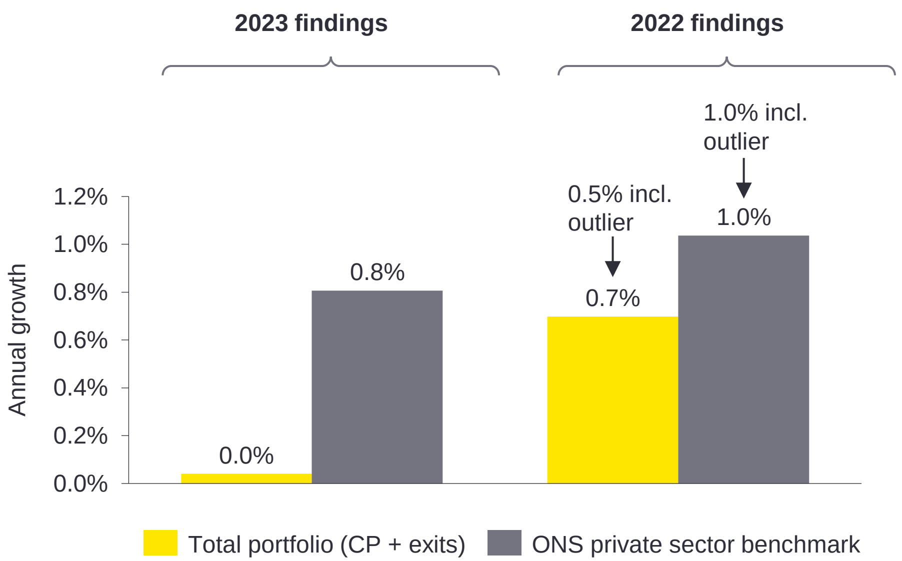
Reported and organic employment growth – by sector

Sector	Reported employment growth	Organic employment growth
Industrial	(3.5%)	(1.4%)
Consumer	2.3%	0.1%
Health care	1.0%	0.2%
Infrastructure	2.9%	1.7%
Technology	3.6%	0.8%
Other	6.2%	1.2%

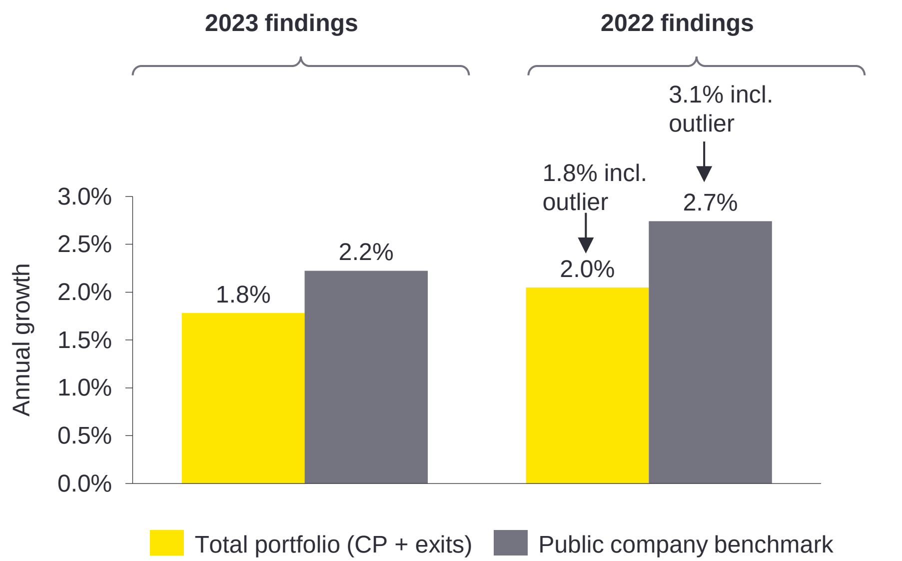
Do portfolio companies create jobs? (cont.)

Annual organic employment growth for the portfolio companies is below the private sector benchmark of 0.8%. On a reported basis, it is below the public company benchmark (1.8% versus 2.2%)

Organic employment growth versus UK private sector benchmarks



Reported employment growth versus public company benchmark



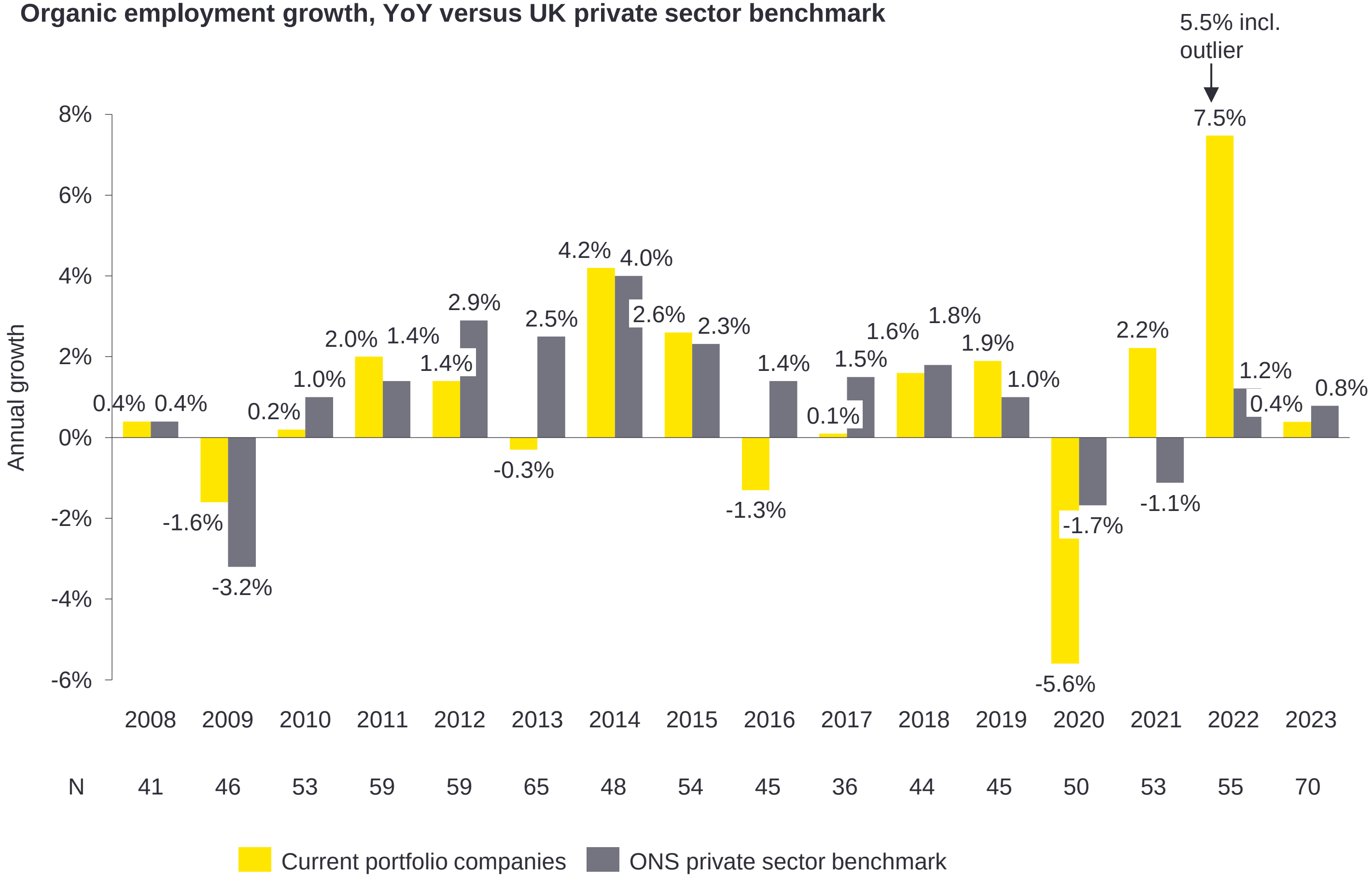
- Organic employment growth can be compared with ONS statistics which report on economy-wide employment trends for the UK private sector. The average annual organic employment growth rate of PE-owned companies is flat in 2023 which is below the UK private sector employment growth of 0.8%.

- 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 1.8% per annum is lower than the public company benchmark of 2.2% per annum.

Do portfolio companies create jobs? (cont.)

In 2023, YoY organic employment growth in the current portfolio companies is lower than the private sector benchmark (0.4% versus 0.8%)

Organic employment growth, YoY versus UK private sector benchmark



- YoY organic employment growth in the current portfolio companies is lower than the ONS private sector benchmark in 2023 (0.4% versus 0.8%).
- On average over the past 10 years, portfolio companies reported YoY organic employment growth of 1.4% which is slightly higher than the average growth for the ONS private sector benchmark at 1.1%.
- Organic employment growth differs across sectors, with the Infrastructure and Other sectors reflecting the highest long-term growth.

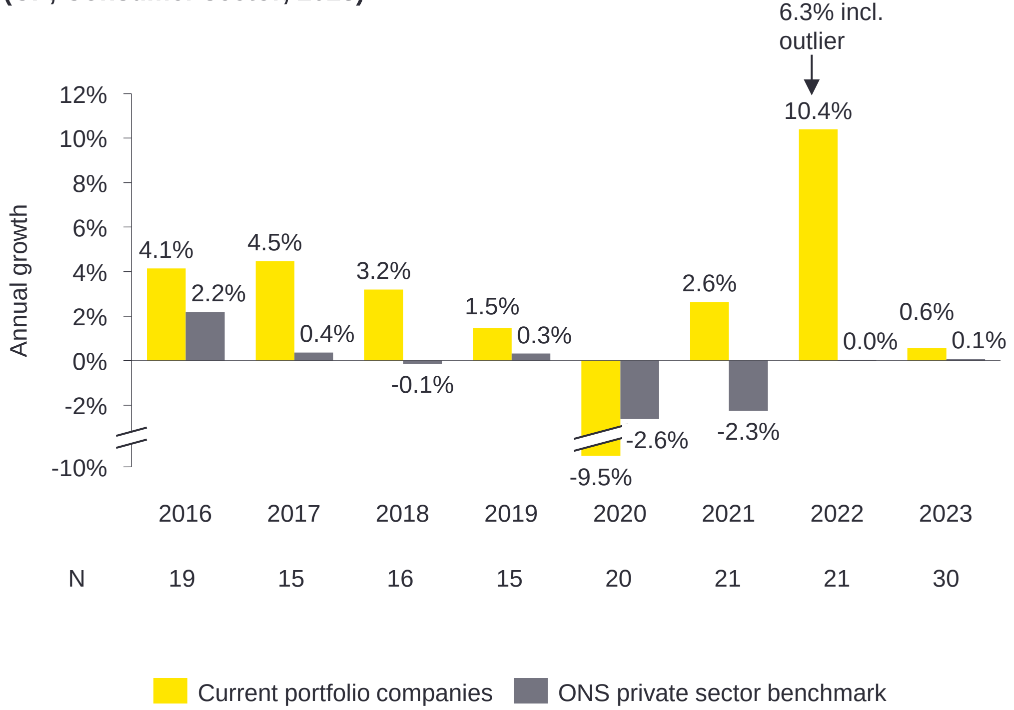
Organic employment growth (YoY) – by sector

Sector	YoY organic employment growth (CPs)
Industrial	(1.8%)
Consumer	0.6%
Health care	(0.1%)
Infrastructure	5.5%
Technology	(4.8%)
Other	6.3%

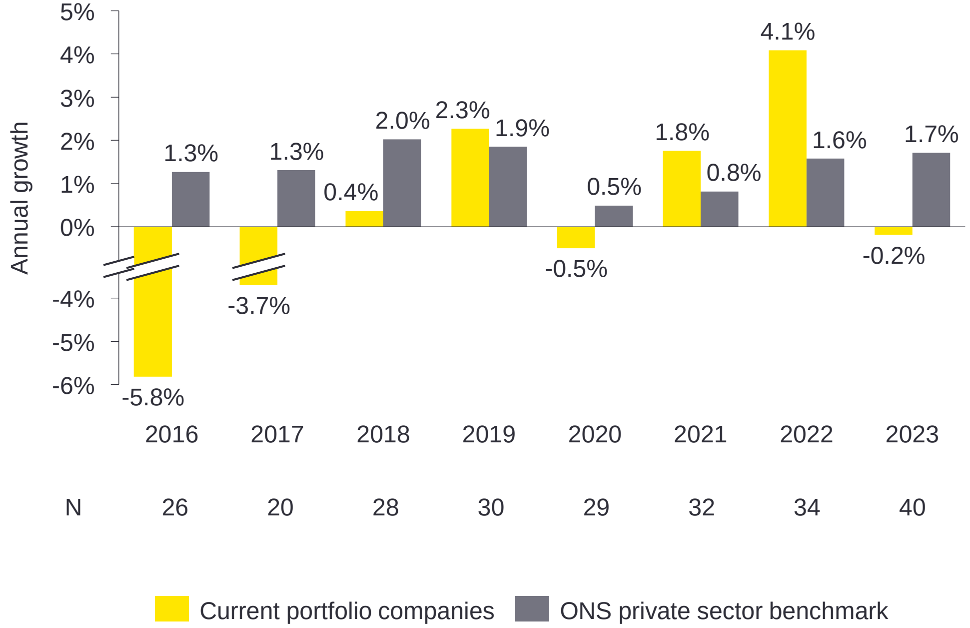
Do portfolio companies create jobs? (cont.)

YoY organic employment growth in the current portfolio companies was higher than the private sector benchmark for the Consumer sector, but was lower for Sectors other than consumer (in aggregate)

Organic employment growth, YoY versus UK private sector benchmark (CP, Consumer sector, 2023)



Organic employment growth, YoY versus UK private sector benchmark (CP, Sectors other than consumer, 2023)

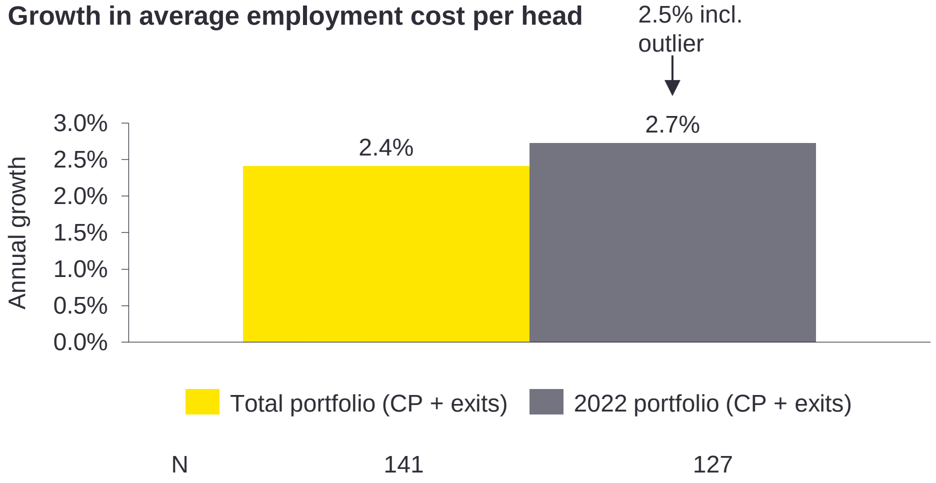


- The YoY trend in organic employment growth for the Consumer sector in 2022 appears to reflect a recovery in organic employment growth after the decline in 2020, likely driven by the COVID-19 pandemic.
- The Consumer sector growth was higher than the ONS private sector benchmark in 2023, whereas growth the Sectors other than consumer was lower than the ONS private benchmark.
- On average over the past eight years, organic YoY employment growth of portfolio companies was higher than the private sector benchmark for the Consumer sector (2.2% versus -0.3%), whilst average growth for Sectors other than consumer was lower than the private sector benchmark (-0.2% versus 1.4%).

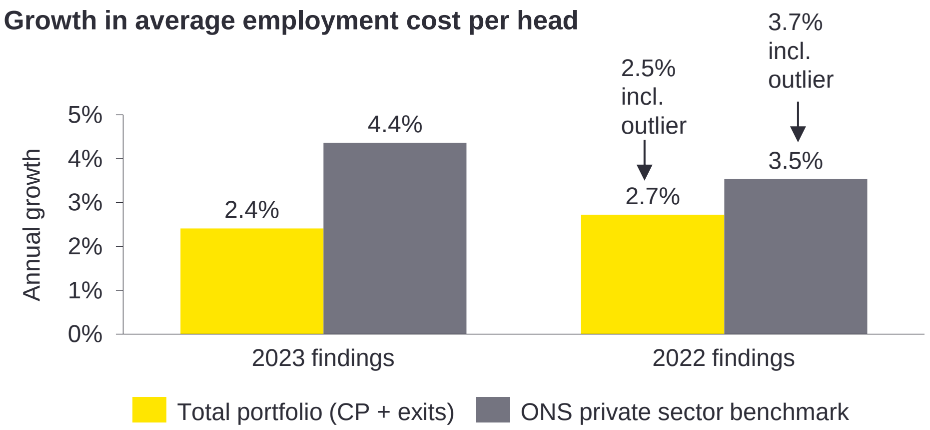
How is employee compensation affected by PE ownership?

Average employment cost per head in the portfolio companies has increased by 2.4% per annum under PE ownership, which is slightly lower than the comparative growth for portfolio companies in 2022 (2.7%) and lower than the UK private sector benchmark (4.4%)

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 a 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, etc.
- The average employment cost per head has increased by 2.4% per annum under the entire period of PE ownership, which reflects a slightly lower growth rate compared with the 2022 findings of 2.7%.
- The average annual employment cost per head increase of 2.4% in the portfolio companies is lower than the ONS private sector benchmark of 4.4% over comparable time periods.

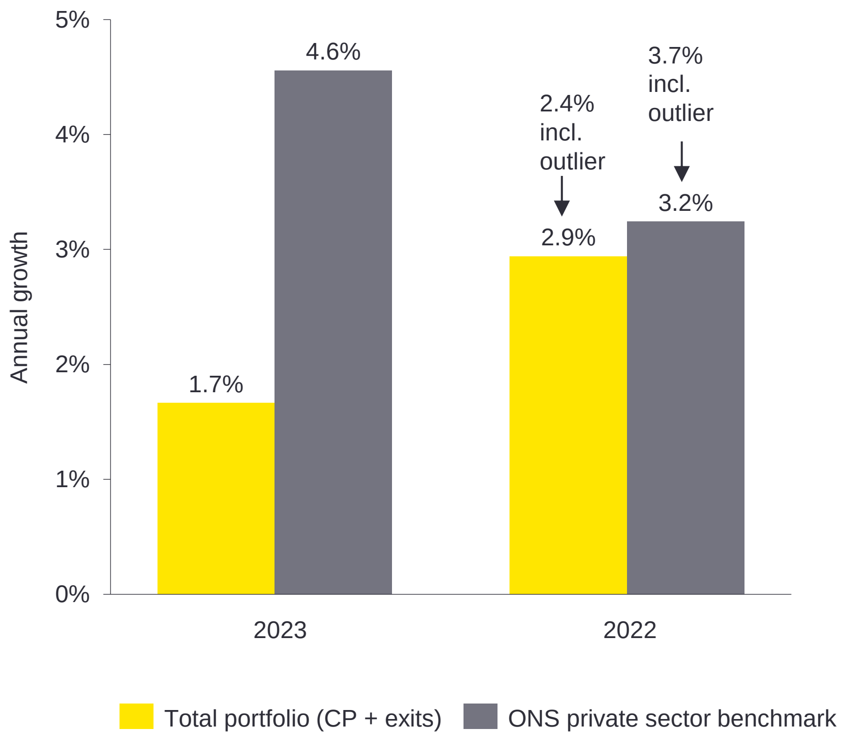
Growth in average employment cost – by sector

Sector	Growth in average employment cost (since acquisition)
Industrial	2.1%
Consumer	1.7%
Health care	5.2%
Infrastructure	3.8%
Technology	2.8%
Other	3.4%

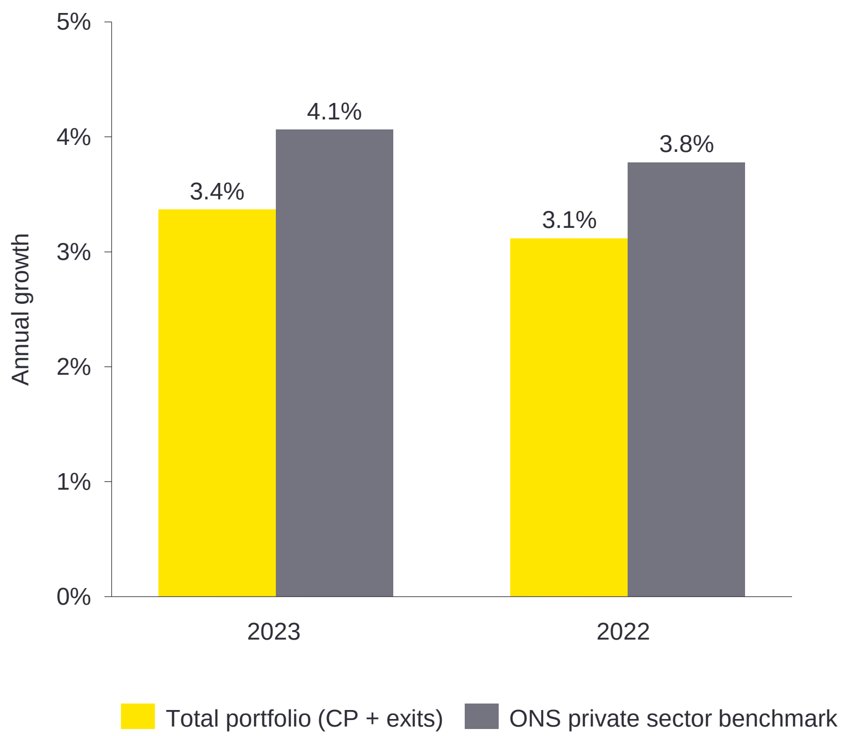
How is employee compensation affected by PE ownership? (cont.)

Average employment cost per head for the Consumer sector and Sectors other than consumer is below the UK private sector benchmark – Consumer sector (1.7% versus 4.6%) and Sectors other than consumer (3.4% versus 4.1%)

Growth in average employment cost per head since acquisition (Consumer sector, 2023)



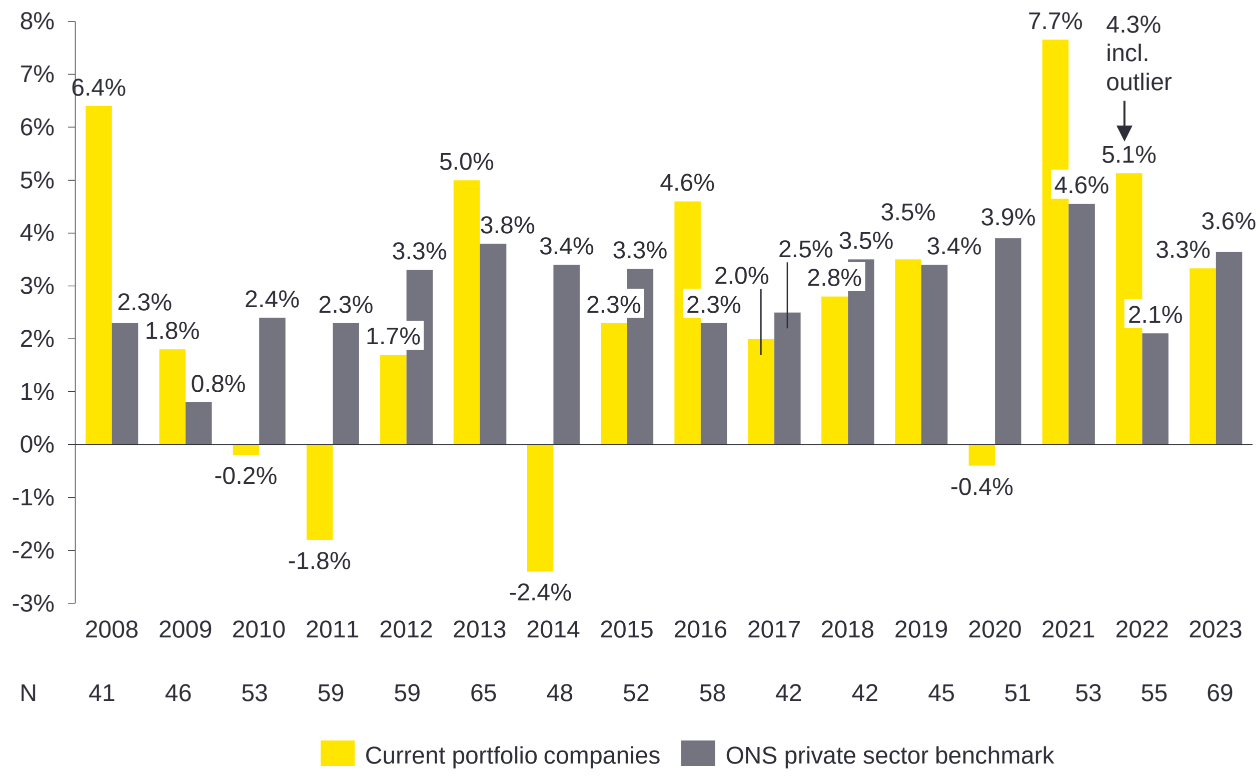
Growth in average employment cost per head since acquisition (Sectors other than consumer, 2023)



How is employee compensation affected by PE ownership? (cont.)

YoY growth in average employment cost per head for current portfolio companies is 3.3% in 2023, which is lower than the UK private sector benchmark of 3.6%

YoY average employment cost per head growth



- The YoY growth in average employment cost per head for the portfolio companies has exhibited some YoY variability, particularly when compared with the overall stable pattern of average compensation increases in the UK private sector (ONS) overall since 2009.
- Part of the variability in the portfolio company data in more recent years likely reflects the impact of the COVID-19 pandemic and subsequent recovery.
- On average over the past 10 years, portfolio companies reported YoY average employment cost per head growth of 2.9% which is slightly lower than the average growth for the ONS private sector benchmark at 3.3%.
- As shown below, there is a wide range of results across the sectors in 2023 for the current portfolio companies, with all sectors reflecting growth in average compensation per head excluding Industrial which shows a decline of 3.7%.

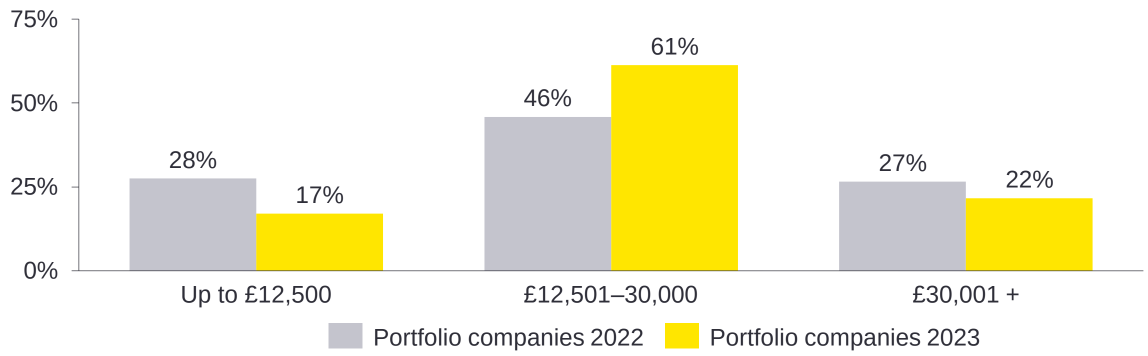
YoY average employment cost per head growth – by sector

Sector	2022-23 growth in average employment cost per head
Industrial	(3.7%)
Consumer	1.5%
Health care	12.1%
Infrastructure	5.5%
Technology	13.1%
Other	4.9%

How is employee compensation affected by PE ownership? (cont.)

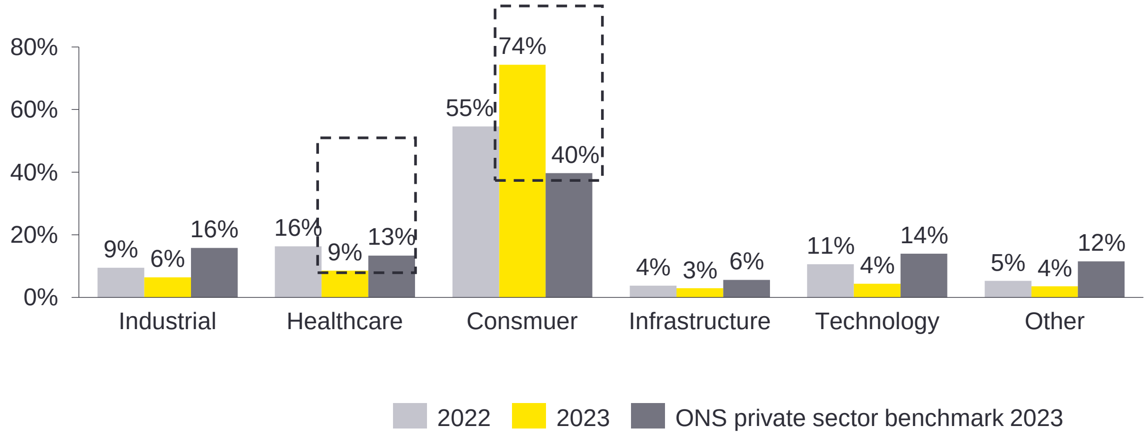
Around 17% of the jobs in the portfolio companies (which will include both part-time and full-time jobs) have an annual compensation of less than £12,500. This is impacted by a high proportion of workers in the Consumer and Health care sectors

YoY average employment cost per head growth



Note: ONS benchmark data for the salary bands has been unavailable since 2022.

Percentage of portfolio company jobs by sector

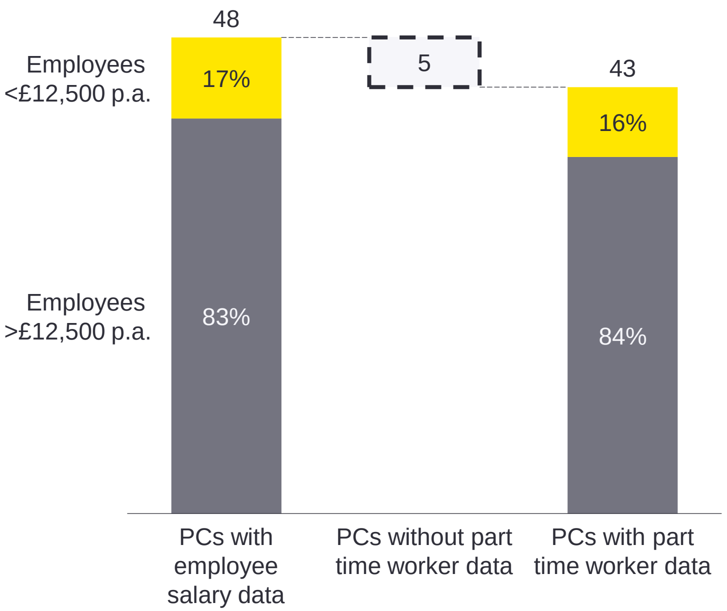


- Data on employment by annual compensation is requested from the portfolio companies, to understand employment trends and practices further.
- In 2023, the portfolio companies have a smaller portion of jobs paying less than £12,500 per year compared with the level in 2022 (17% versus 28%).
- The compensation range amongst portfolio companies each year may be influenced by sector mix, with the portfolio companies weighted towards the Health care and Consumer sectors. 83% of jobs in the portfolio companies are in the Health care and Consumer sectors (71% in 2022), in comparison with 53% in the UK private sector.
- Another factor driving the distribution of the compensation levels amongst portfolio companies may be attributed to the mix of full-time versus part-time and zero-contract workers. See the following page for further details.

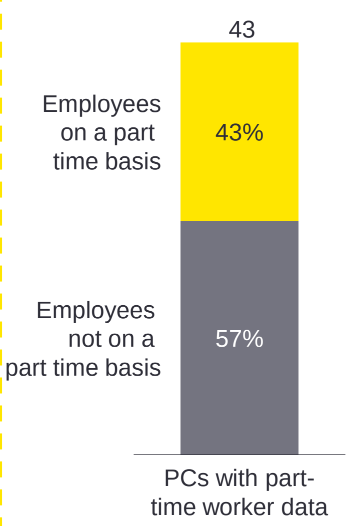
How is employee compensation affected by PE ownership? (cont.)

Around 16% of the jobs in the 43 portfolio companies which have provided part-time data have an annual compensation of less than £12,500. 43% of employees in these portfolio companies are employed on a part-time basis

Percentage of portfolio company UK jobs by annual compensation band



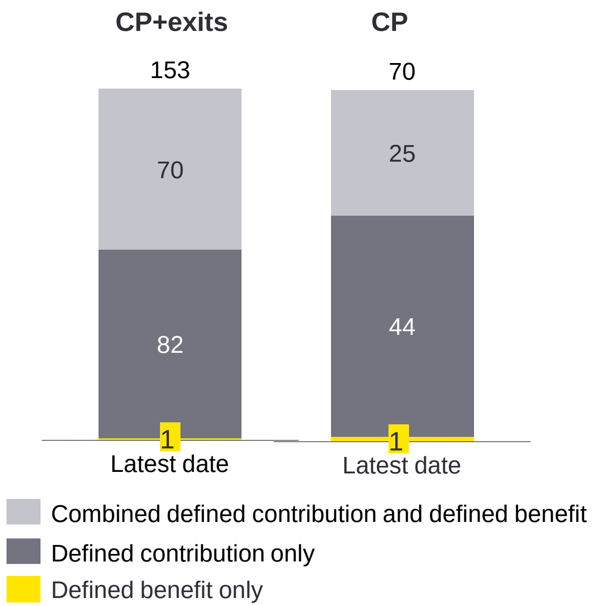
Percentage of portfolio company UK jobs by part-time versus non part-time basis



- For the portfolio companies that have provided both annual salary band data and part-time worker data (43 companies), 16% of jobs have an annual compensation of less than £12,500. This compares with 43% 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 amongst portfolio companies.

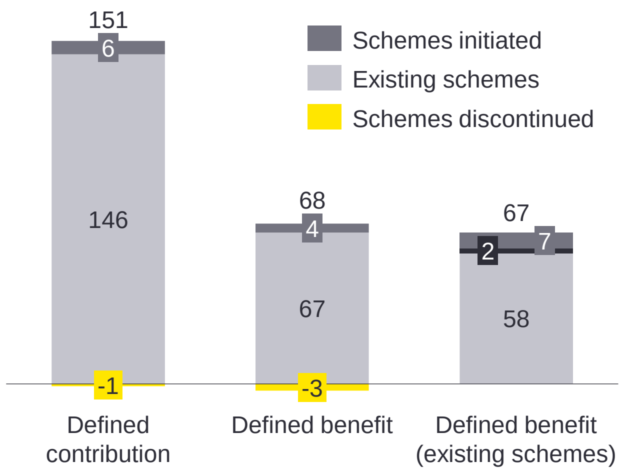
How is employee compensation affected by PE ownership? (cont.)

Distribution of companies by type of pension schemes



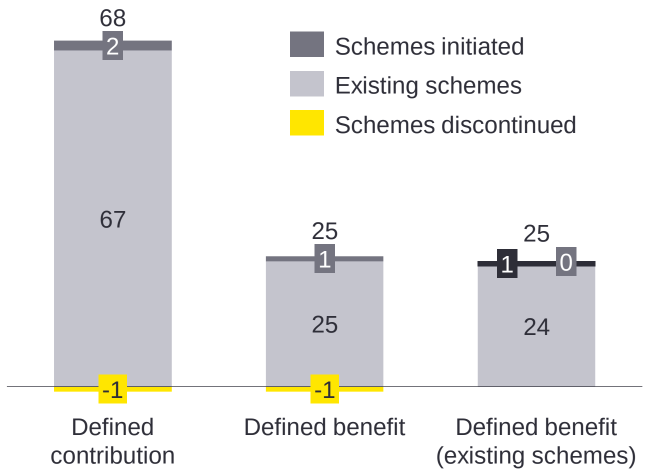
- Of the 155 portfolio companies that have provided pension information (including exits), 153 reported that they offer pension schemes to their employees (82 offer defined contribution (DC) schemes only, 70 offer a combination of defined benefit (DB) and DC schemes, and one offers DB schemes only). Two historical exits reported that they did not provide any pension scheme to their employees.
- Of the 70 companies including both DC and DB, 66 companies had a DB scheme in place prior to acquisition, of which 13 sought approval from the regulator at the time of their investment.

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



- Over the 17 years period of this study, there have been changes to portfolio company pension schemes (noting minimal changes in 2023):
  - At six portfolio companies, new DC schemes have been initiated, two of which only had a DB scheme at the time of acquisition and four of which had no pension scheme at the time of acquisition.
  - At four portfolio companies, new DB schemes have been initiated, and three schemes have been closed.
  - Also, seven DB schemes were closed to accruals for existing members and two for new members.

Changes to pension schemes under PE ownership (CP)

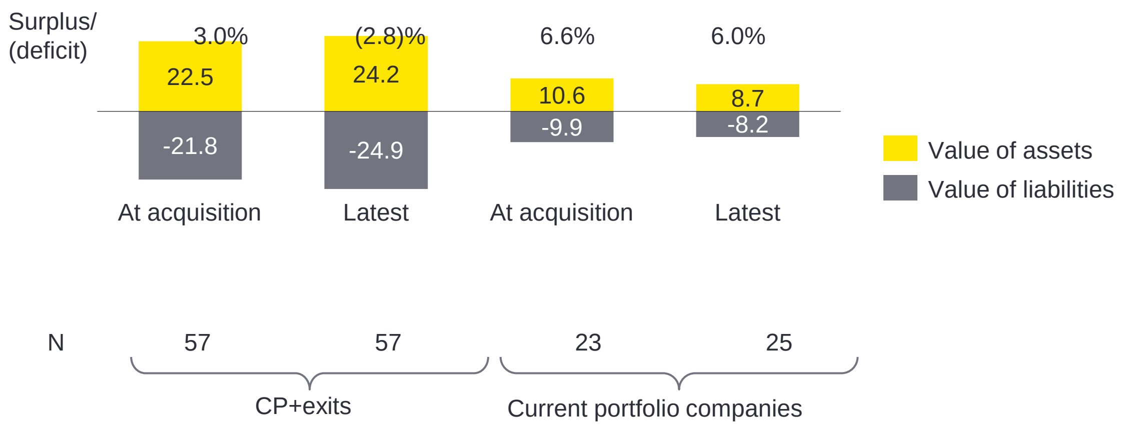


- Under PE ownership, there have been changes to Current portfolio company pension schemes (noting minimal changes in 2023):
  - At one portfolio company, a new DB scheme has been initiated.
  - One DB scheme was discontinued.
  - One DB scheme was closed to accruals for new members.

How is employee compensation affected by PE ownership? (cont.)

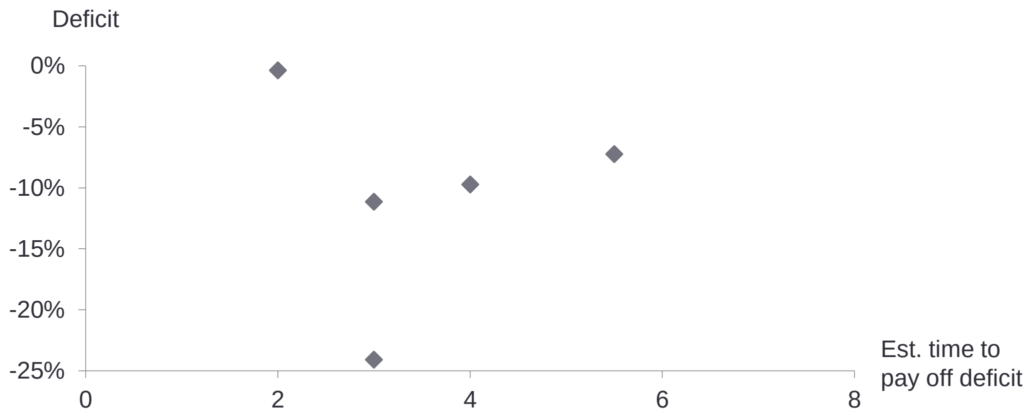
To date, the aggregated value of liabilities of defined benefit schemes of current portfolio companies is lower than the value of assets; the average time to pay off the deficit is estimated as 3.5 years, a slight decrease from 4.8 years in the 2022 report

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



- The deficit at latest date of -2.8% is lower than the previous year (-5.1%) and reflects a slightly lower payoff timeline (3.5 years versus 4.8 years as per the 2022 report).

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

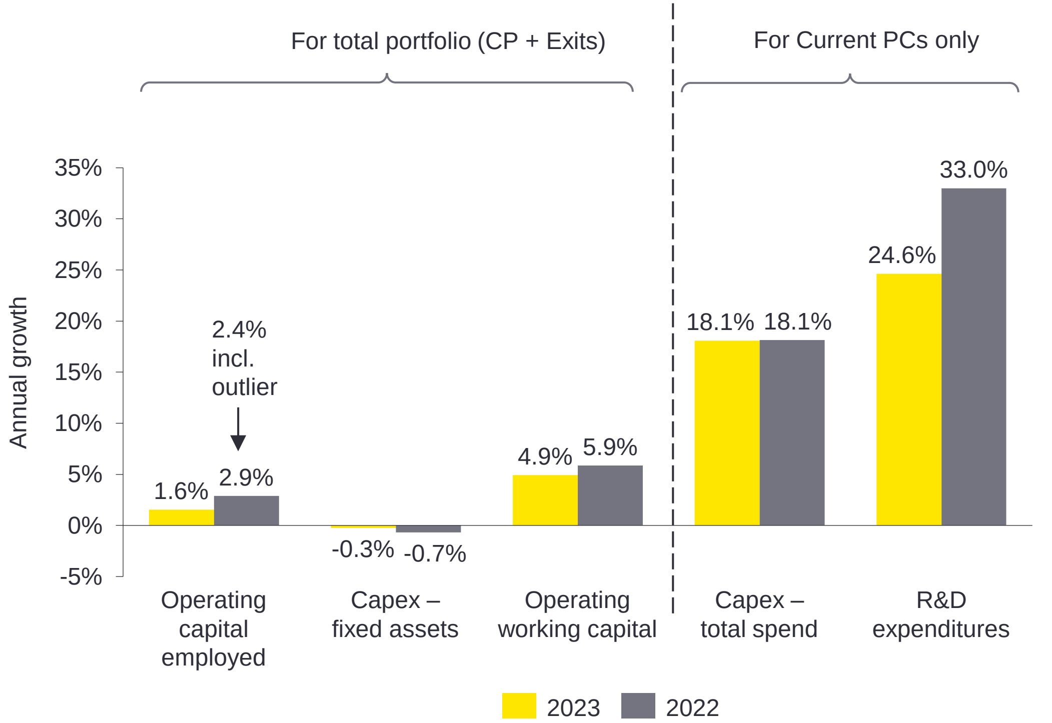


- Of the 25 current portfolio companies offering defined benefit pension schemes, 10 reported deficits:
  - Five companies reported the estimated time to pay off the deficit, which on average is 3.5 years.
  - Five did not provide detail on estimated time to pay off the deficit or reported that this was ‘under discussion’.

Do portfolio companies increase or decrease investment?

Investment in operating capital employed for portfolio companies was 1.6% in 2023, lower than 2.9% in 2022

Growth in measures of investment since acquisition



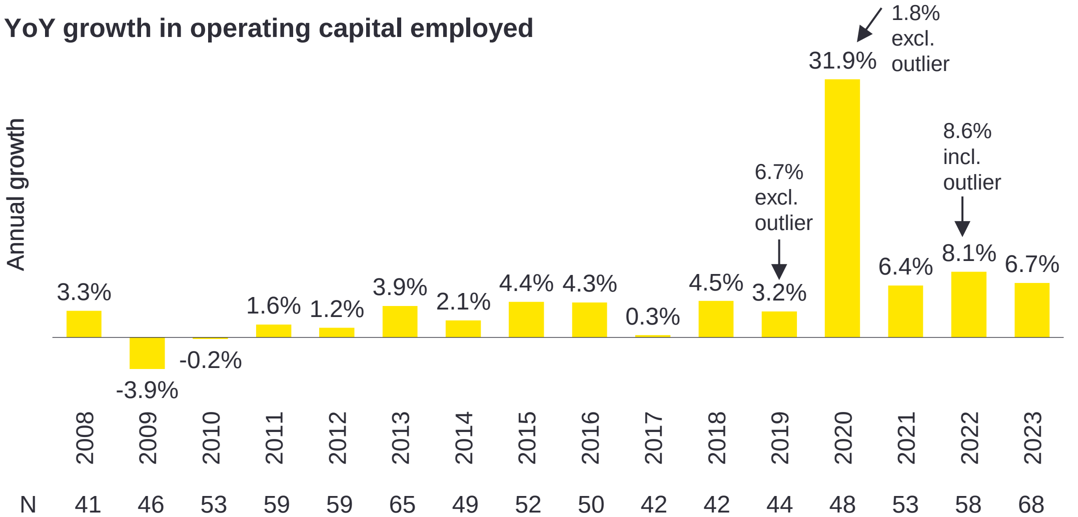
N (2023)	138	65	127	69	13
N (2022)	125	65	123	60	11

- There has been growth in all measures of investment at the portfolio companies whilst under PE ownership apart from growth in capex – fixed assets.
- Operating capital employed for current and exit portfolio companies is below 2022 at an annual average rate of 1.6% (2022: 2.9%). 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 decreased at -0.3%. Operating working capital has increased by 4.9% 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 remained consistent with the level of growth in 2022 of 18.1%. This includes all tangible/intangible investments (some of which relate to bolt-on acquisitions).
- Total R&D expenditure increased by 24.6% per annum under PE ownership, though we note the small sample size.

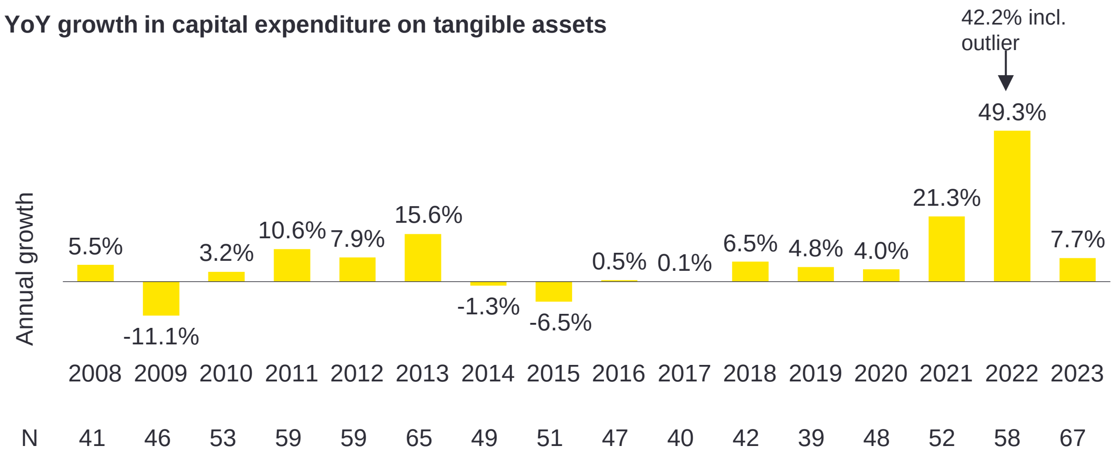
Do portfolio companies increase or decrease investment?

YoY growth in operating capital employed for portfolio companies was 6.7% in 2023, slightly lower than 8.1% in 2022

YoY growth in operating capital employed



YoY growth in capital expenditure on tangible assets

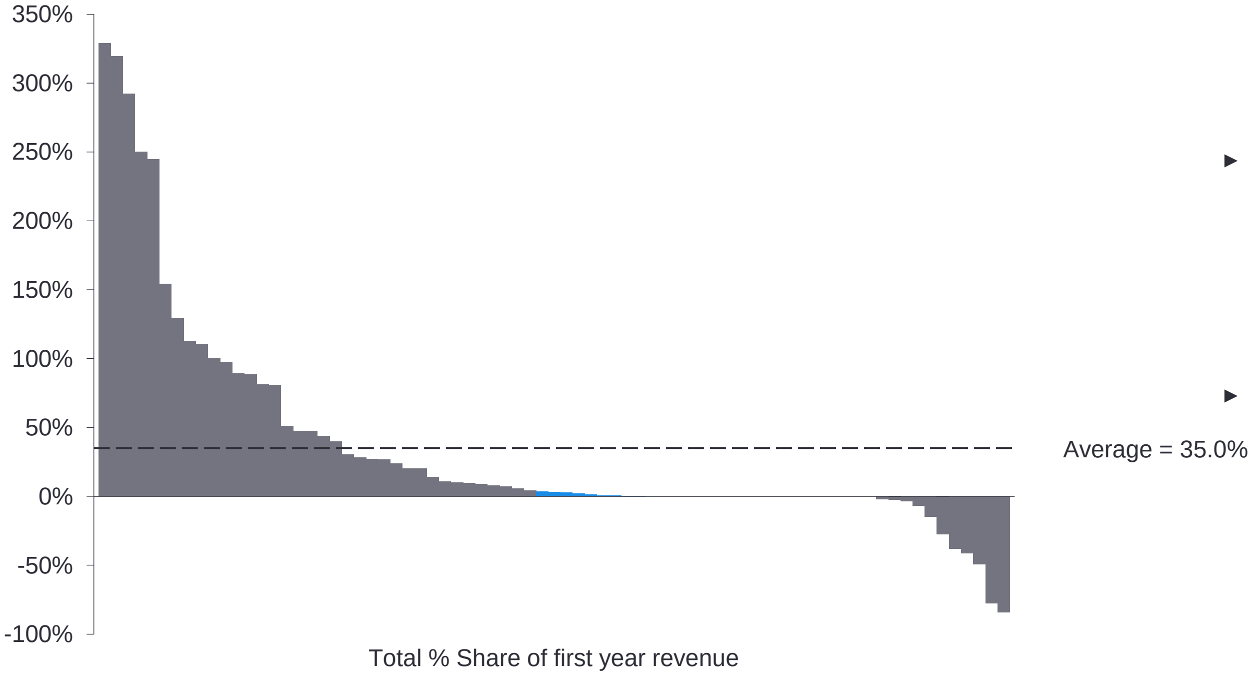


- YoY growth in operating capital employed in 2023 was 6.7%, a reduction from 8.1% in 2022.
- In 2020, higher growth compared with 2019 is impacted by significant movements in fixed assets in two large portfolio companies. The growth in operating capital employed would be 1.8% when adjusted for these companies, which is more in line with growth observed over the historical period.
- YoY growth in capital expenditure in 2023 was 7.7%, a reduction from 49.3% in 2022. Significantly higher capex growth in 2021 and 2022 (compared with other periods) appears to be driven by post COVID-19 investments in tangible assets.

Do portfolio companies increase or decrease investment? (cont.)

60% of the current portfolio companies have made net bolt-on acquisitions, whilst 15% 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 45 (60%) and 11 (15%) of the 75 portfolio companies under PE ownership include the impact of 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. 19 portfolio companies (25%) 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, nine portfolio companies have made acquisitions that have increased revenue by more than 100%, and two portfolio company has disposed of more than 50% of revenue.

Note: % on the Y-axis measures the net impact of acquisitions and disposals on revenue (since acquisition) as a % of revenue in Year 1 of the study for a given portfolio company.

Do portfolio companies increase or decrease investment? (cont.)

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	**54.4**	**5.9**
Operating cashflow post tax and interest payments, pre capex	(21.0)	
Net funds to equity investors	11.0	
Capex (organic plus bolt-on acquisitions net of disposals)	43.7	
Increase/(decrease) in net debt	**33.7**	
Net debt at latest date	**88.1**	**6.8**

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

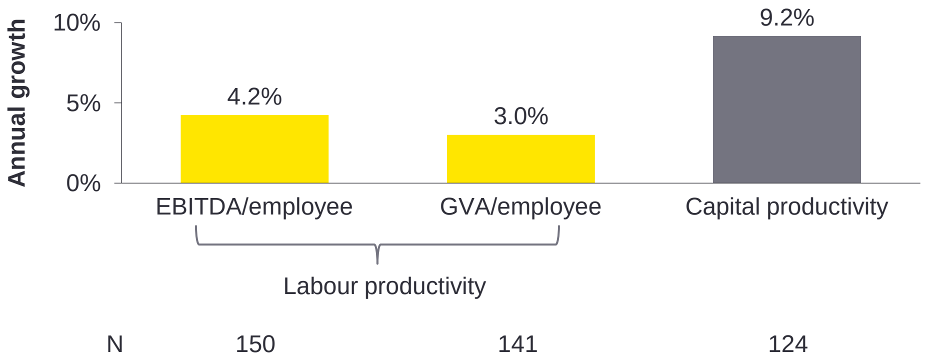
- *In some cases, lease liabilities, specifically financial leases recognised under IFRS 16, which became effective in January 2019.*
- *Debt obtained by consumer finance providers to fund their normal business of consumer lending, which is typically backed by the customer advances book (i.e., trade 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 £21.0bn 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 £11.0bn, this has been more than offset by an aggregate additional investment of £43.7bn.
- To fund this investment in the portfolio companies, third-party debt (net debt) has increased by a net £33.7bn. As profit (or EBITDA) has grown in line with net debt (albeit slower), the leverage ratio of net debt to EBITDA has increased from 5.9x at acquisition to 6.8x to date.
- 52 of 67 current portfolio companies generated positive free cash flow (before interest costs and after capex investment) in the current reporting year.

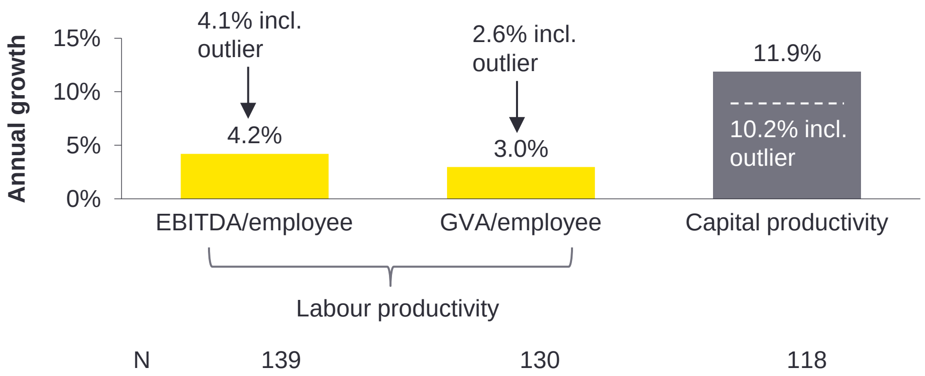
How does productivity change under PE ownership?

Labour productivity has increased under PE ownership by 4.2% and 3.0% as measured by EBITDA per employee and GVA per employee respectively; capital productivity has increased by 9.2% per annum

Growth in labour productivity and capital productivity since acquisition (CP+exits, 2023)



Growth in labour productivity and capital productivity since acquisition (CP+exits, 2022)

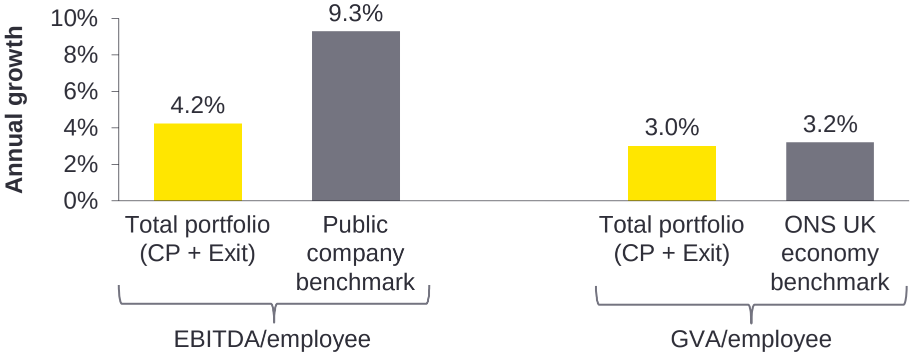


- Economic impact is a function of both changes in productivity and growth in resources. To assess the performance of the portfolio companies on labour productivity, two measures have been analysed:
  - Profit (or EBITDA) per employee, which can be benchmarked to public companies. On this measure, the portfolio companies have increased labour productivity by 4.2% per annum.
  - GVA 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 3.0% per annum.
- Capital productivity is measured as revenue over operating capital employed. The portfolio companies have increased capital productivity by 9.2% 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.

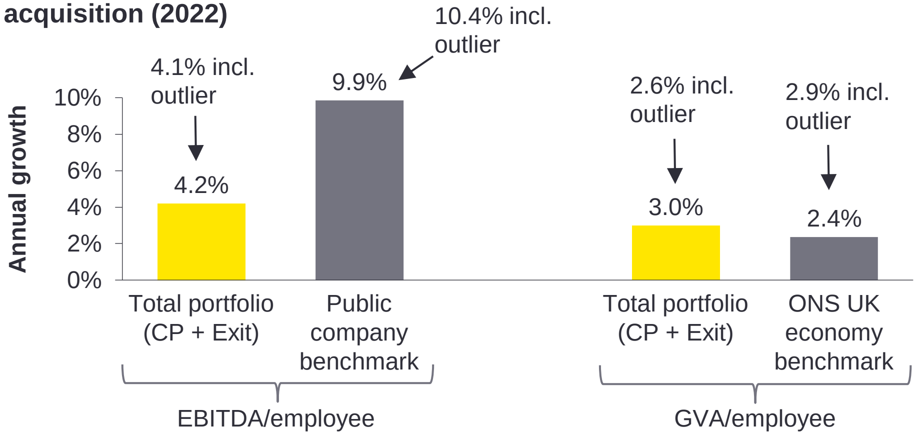
How does productivity change under PE ownership? (cont.)

The annual increase in labour productivity in the portfolio companies is between 3.0% and 4.2% in 2023, and is lower than the public benchmarks for EBITDA/employee and UK private sector benchmark for GVA/employee

Growth in EBITDA per employee and GVA per employee since acquisition (2023)



Growth in EBITDA per employee and GVA per employee since acquisition (2022)



- 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 slightly lower rate compared with the ONS UK economy benchmark.

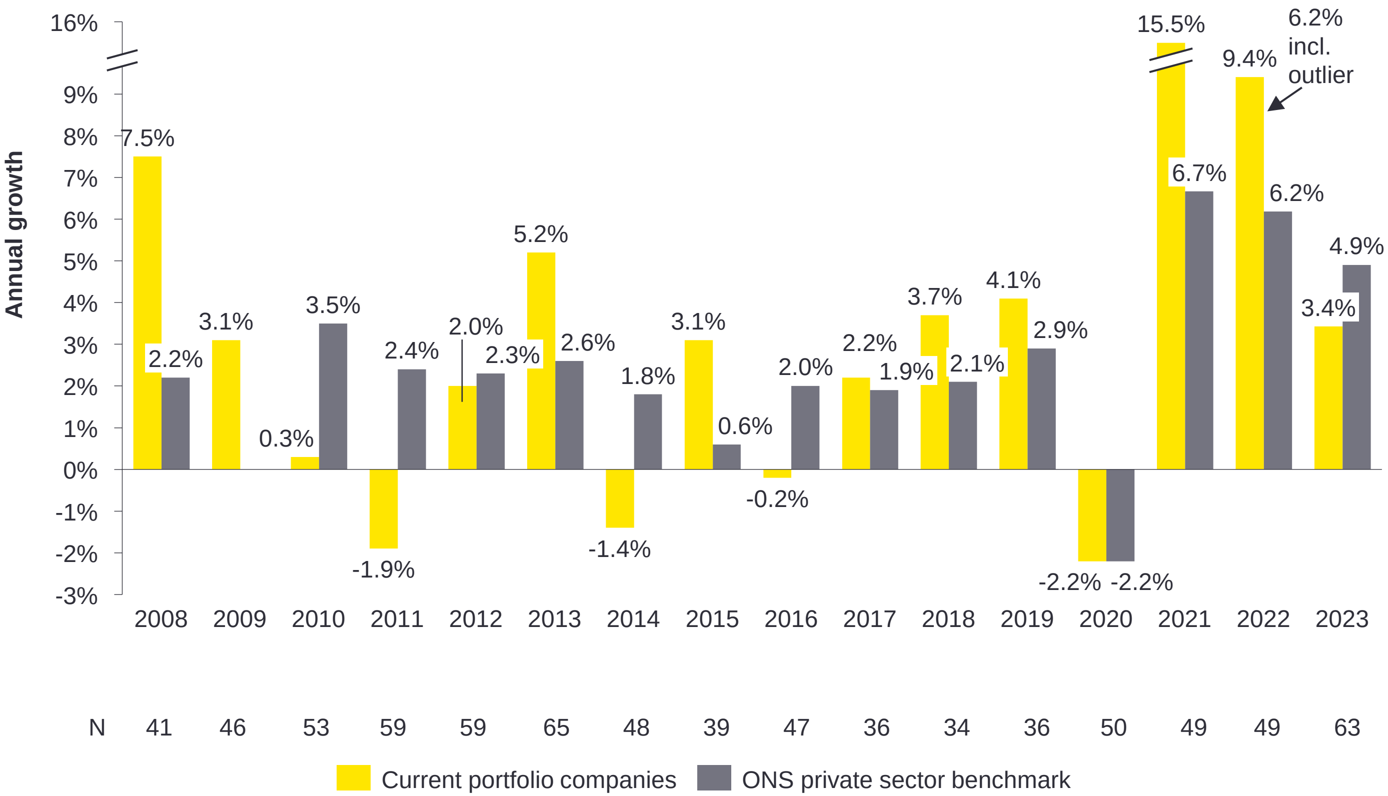
Growth in EBITDA per employee and GVA per employee – by sector

Sector	Growth in EBITDA/employee	Growth in GVA/employee
Industrial	4.1%	2.5%
Consumer	5.7%	3.2%
Health care	5.3%	5.7%
Infrastructure	0.6%	1.6%
Technology	9.6%	3.7%
Other	1.3%	2.4%

How does productivity change under PE ownership? (cont.)

In 2023, GVA per employee of portfolio companies increased by 3.4% YoY versus 9.4% in 2022, and at a lower rate than the UK private sector benchmark (4.9%)

YoY growth in GVA per employee, portfolio companies versus private sector benchmark

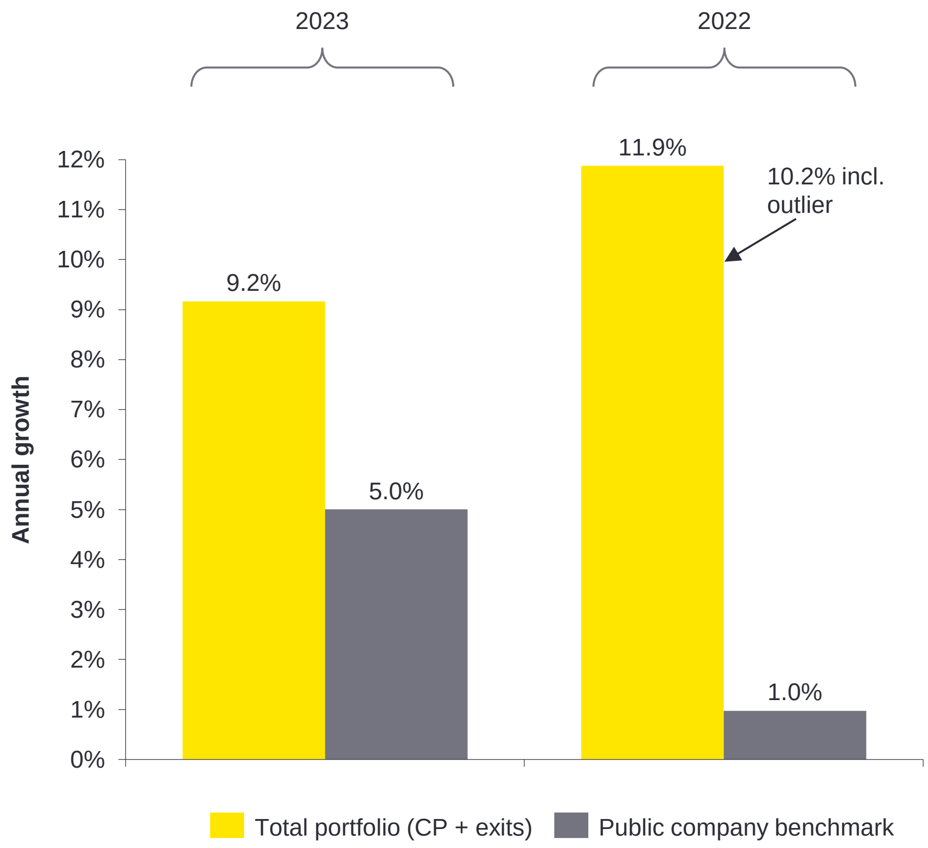


- Labour productivity in portfolio companies increased by 3.4% in 2023, lower than the private sector benchmark growth of 4.9%.
- This increase in labour productivity in 2022 was driven by the increase in portfolio companies' EBITDA and employment cost in 2022 compared with 2021.
- As with other measures in this report, the YoY growth in GVA per employee varies for the portfolio companies compared with a more consistent trend in the UK private sector benchmark (with the exception of 2020 to 2022).
- The CAGR for GVA per employee for total portfolio companies (CP+exits) since acquisition is 3.0%.
- On average over the past 10 years, portfolio companies reported YoY growth in GVA per employee of 3.8%, which is higher than the average growth for the ONS private sector benchmark at 2.7%.

How does productivity change under PE ownership? (cont.)

Capital productivity growth in the portfolio companies exceeds the public company benchmark at 9.2% versus 5.0% 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 9.2% per annum in 2023 versus benchmark of 5.0% per annum.
- 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.

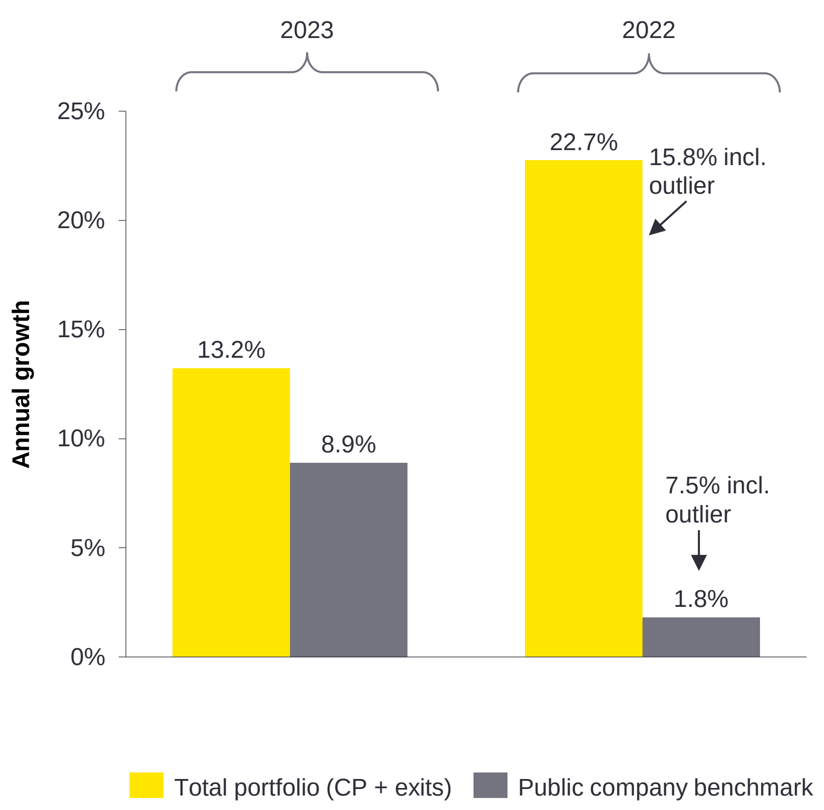
Growth in capital productivity – by sector

Sector	Growth in capital productivity
Industrial	12.4%
Consumer	13.2%
Health care	5.2%
Infrastructure	(0.5%)
Technology	(12.0%)
Other	4.0%

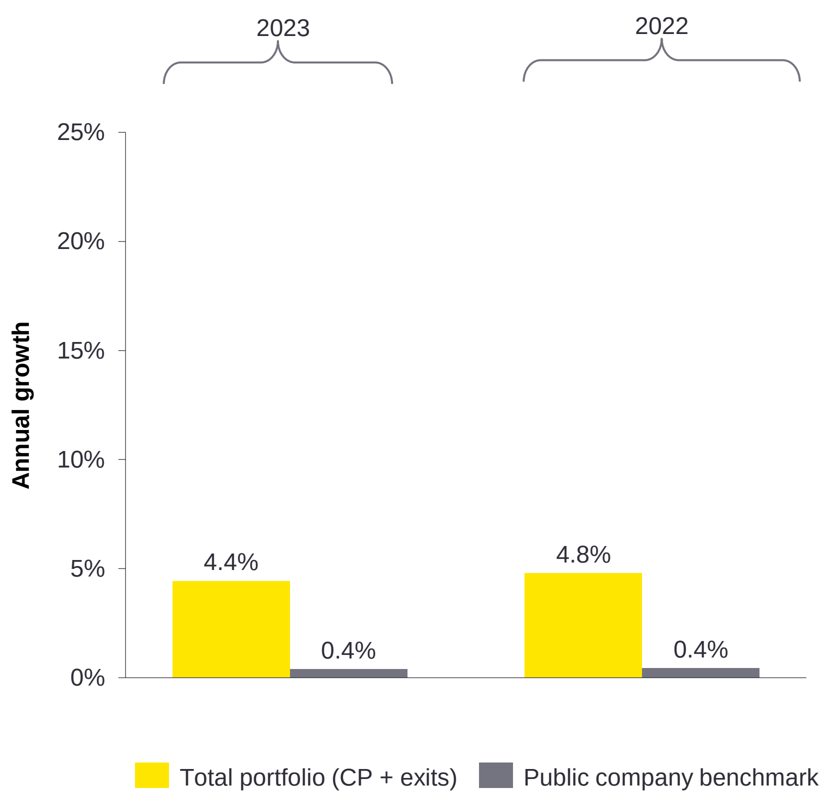
How does productivity change under PE ownership? (cont.)

Capital productivity growth for both the Consumer sector and Sectors other than consumer (aggregated) was higher than the comparative public company benchmark in 2023

Growth in capital productivity since acquisition (Consumer sector, 2023)



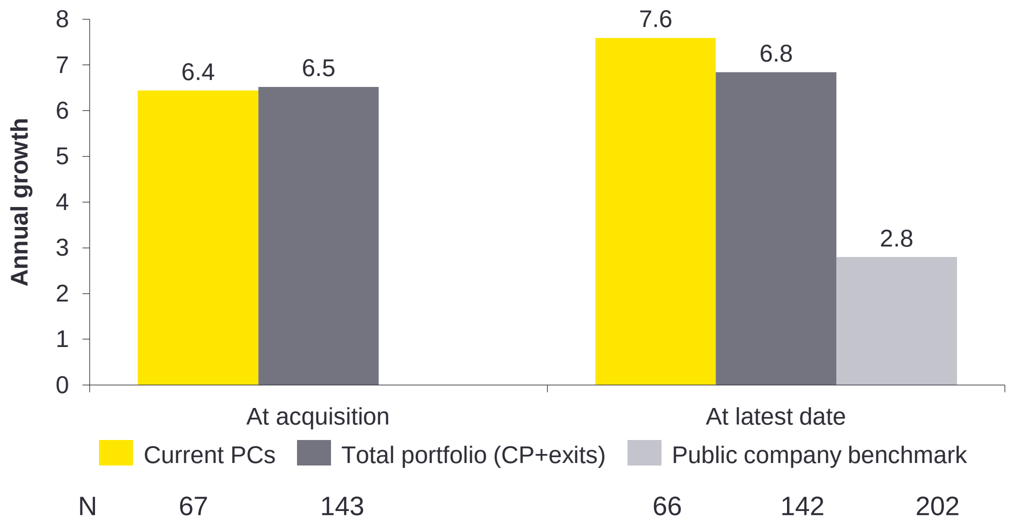
Growth in capital productivity since acquisition (Sectors other than consumer, 2023)



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

In aggregate total portfolio companies had an average leverage ratio of 6.5 gross debt to EBITDA at acquisition and 6.8 at latest date or exit

Debt to EBITDA ratio (at acquisition and latest date)



Debt to EBITDA ratio – by sector

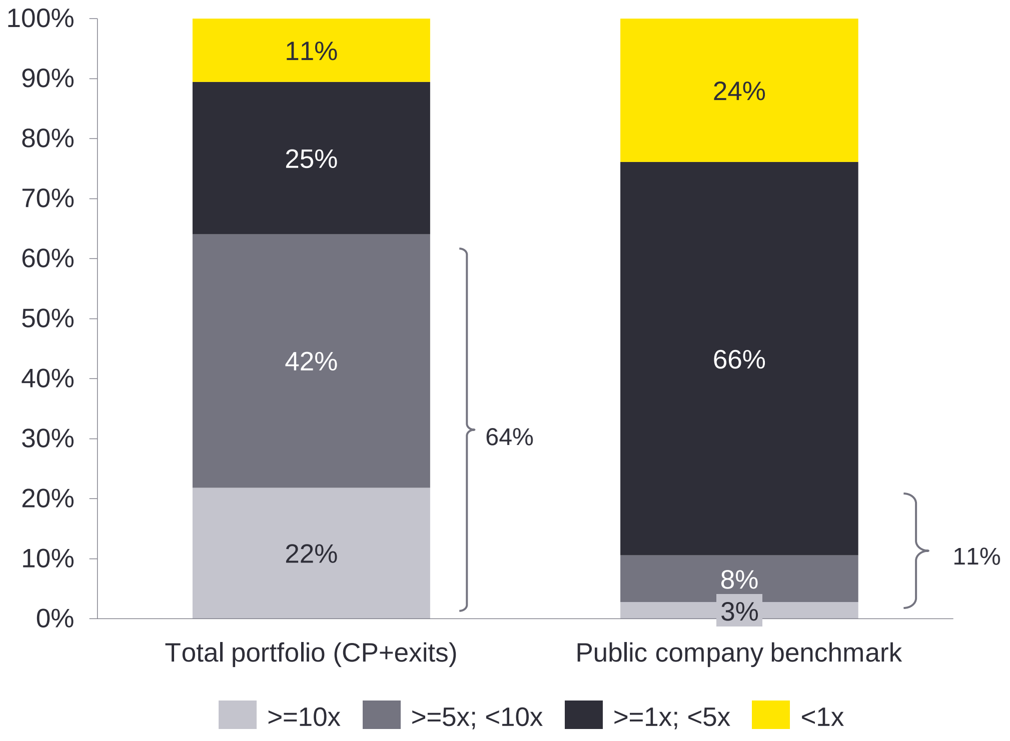
Sector (CP+exits)	Debt to EBITDA at acquisition	Debt to EBITDA at latest date/exit
Industrial	5.9	7.2
Consumer	6.5	6.0
Health care	7.6	7.4
Infrastructure	6.1	9.1
Technology	7.7	5.7
Other	7.3	8.9

- One measure of financial leverage is the ratio of gross debt to EBITDA.
- Across the current portfolio companies, gross debt has increased from 6.4x at acquisition to 7.6x at latest date, indicating that debt has grown but at a slightly higher rate to growth in profit.
- When interpreting this metric, there are a few factors for consideration relating to gross debt, which represents an accounting measure and includes:
  - 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.
- Other factors for consideration include:
  - For certain portfolio companies, a delayed financing occurred whereby equity finance was used at acquisition and debt was received shortly after acquisition.
  - EBITDA represents figures reported in the statutory accounts and is not presented pro forma for the part-year impact of acquisitions or disposal. When compared with debt on the balance sheet at the reporting date, this may overstate the leverage ratio for highly acquisitive portfolio companies.
- Across the total portfolio (CP plus exits), the leverage ratio averaged 6.5x at the time of initial investment by the PE owners and 6.8x at latest date or exit. Leverage trends from acquisition to latest or exit date have differed across sectors, with leverage decreasing under PE ownership in the Technology, Health care and Consumer sectors. The increase in the Infrastructure and Other sectors is driven by one outlier historical exit PC and one outlier current PC respectively.
- The public company benchmark does not represent a consistent portfolio of companies YoY (see page 56 for further details of criteria). YoY changes in the composition of benchmark companies did not have a material impact on leverage when comparing 2023 (2.8x) with 2022 (3.1x). The decrease in leverage was mainly driven by EBITDA growth in companies that are included in both the 2022 and 2023 benchmark.

What are the levels of financial leverage in the portfolio companies?(cont.)

Portfolio companies have much higher levels of financial leverage than public companies: 64% of portfolio companies have a debt-to-EBITDA ratio above 5x, versus 11% of publicly listed companies

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



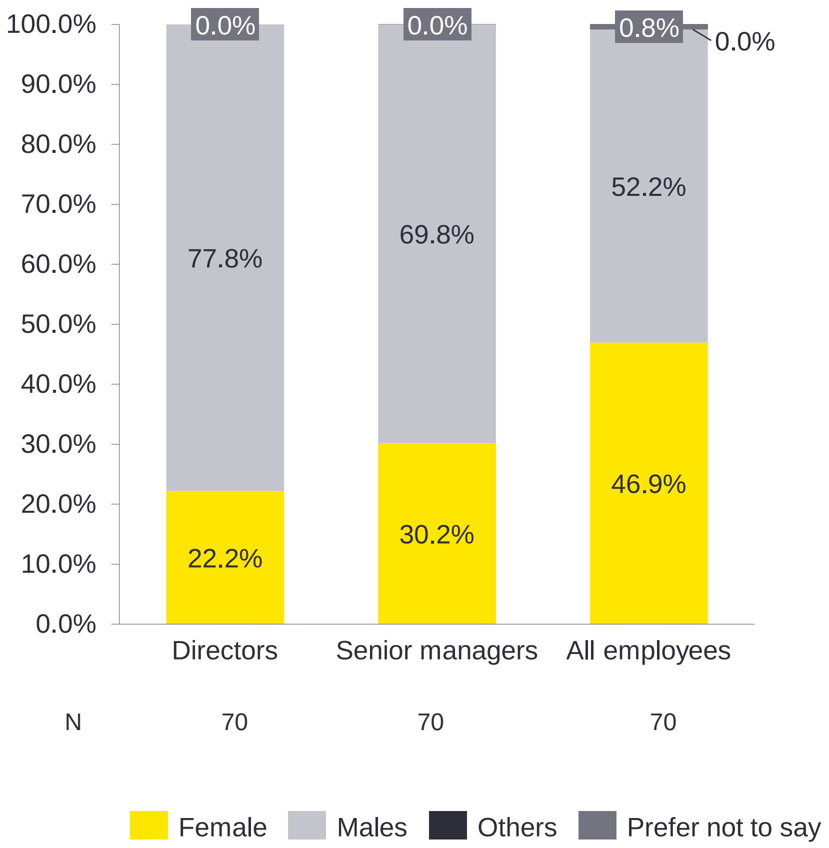
N	142	202

- 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 6.8x compared with the public company benchmark of 2.8x, showing higher levels of financial leverage in the portfolio companies. Whilst 64% of portfolio companies have leverage ratios above 5x, this is true for only 11% of companies in the public company benchmark.

What is the level of gender diversity in the portfolio companies

Female representation is 47% (51% in 2022) at an overall employee level across the current portfolio companies and 22% at the director level. 36% (40% in 2022) of FTSE 250 board positions are held by females (source: Hampton-Alexander Review)

Gender diversity amongst portfolio companies by designations



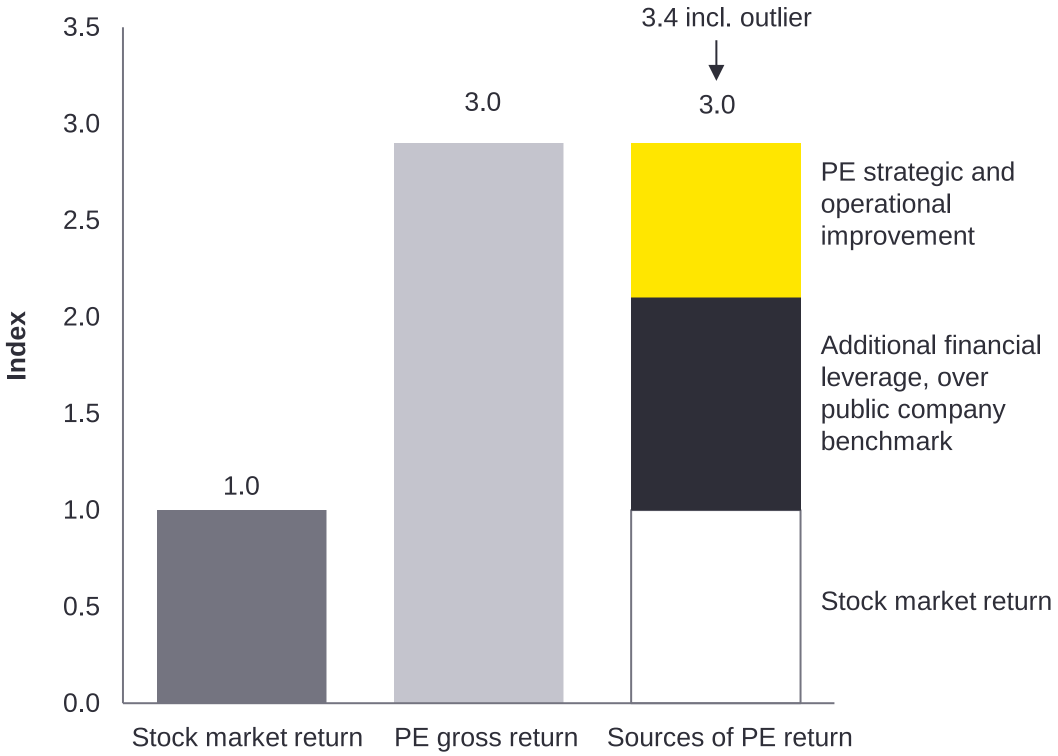
- Gender diversity may provide an additional lever for value creation within firms' portfolios.
- Female representation is 47% (2022: 51%) at an overall employee level across the current portfolio companies reporting the data, mostly driven by the Health care sector (80% female), whilst all other sectors are male dominant, i.e., there is a skew when looked at on a sectoral basis.
- 22% (2022: 20%) of directors in the portfolio companies are females. This compares with 36% (2022: 40%) of FTSE 250 board positions held by females (source: Hampton-Alexander Review, Feb, 2024*).

**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.41% 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



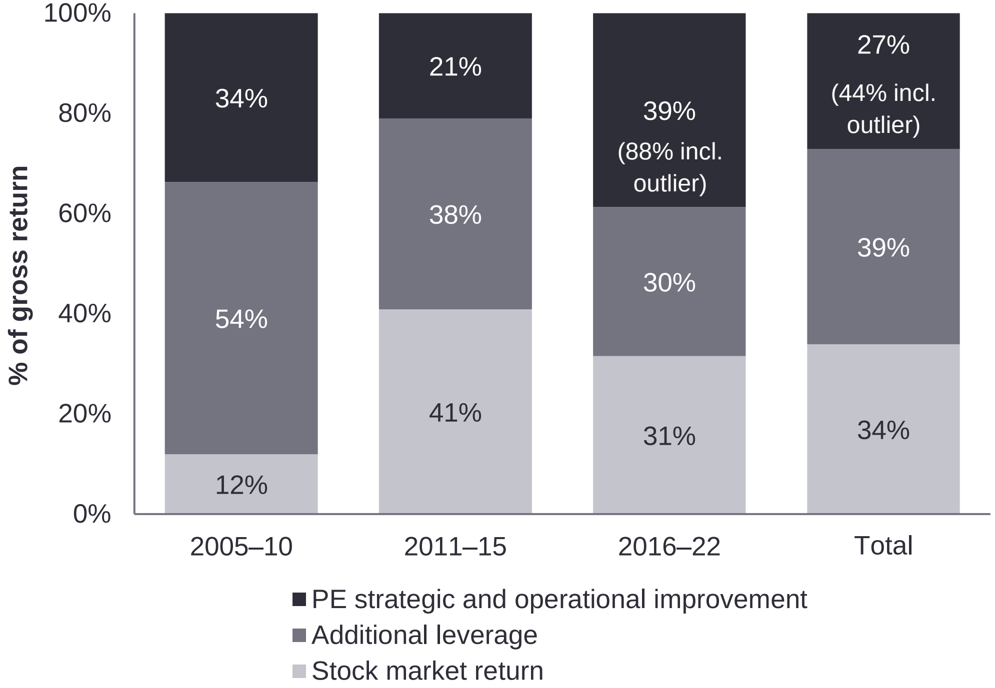
The analysis remains unchanged compared with the 2022 report as there have been no additional exits included this year.

- 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 2021 of 3.0x.
- For public and PE, the measure of gross return is before the fees and charges incurred by investors.
- 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.)

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

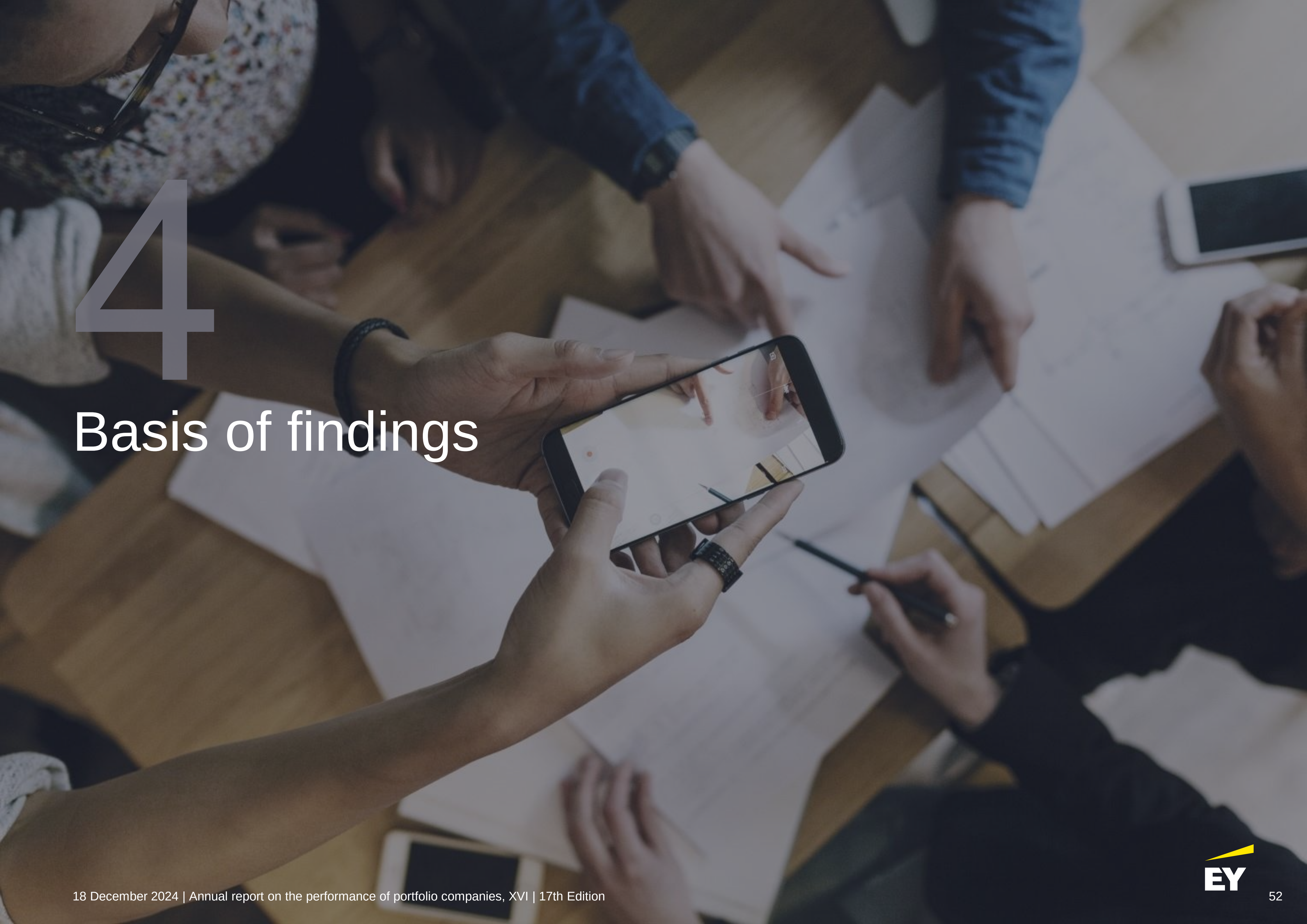
Returns attribution, portfolio company exits 2005–21



	2005–10	2011–15	2016–22	Total
N	19	47	33	99
Average hold time (years)	4.6	6.1	7.0	6.1

The analysis remains unchanged compared with the 2022 report as there have been no additional exits included this year.

- 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.	54
Is the profile of the portfolio companies skewed by sector or size?	► The portfolio companies are skewed towards the Health care and Consumer sectors, accounting for 83% of employment versus 53% 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. ► There is variation by sector across many of the performance measures in this report.	55
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.	56-57
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.	58–61

How is the portfolio company data aggregated?

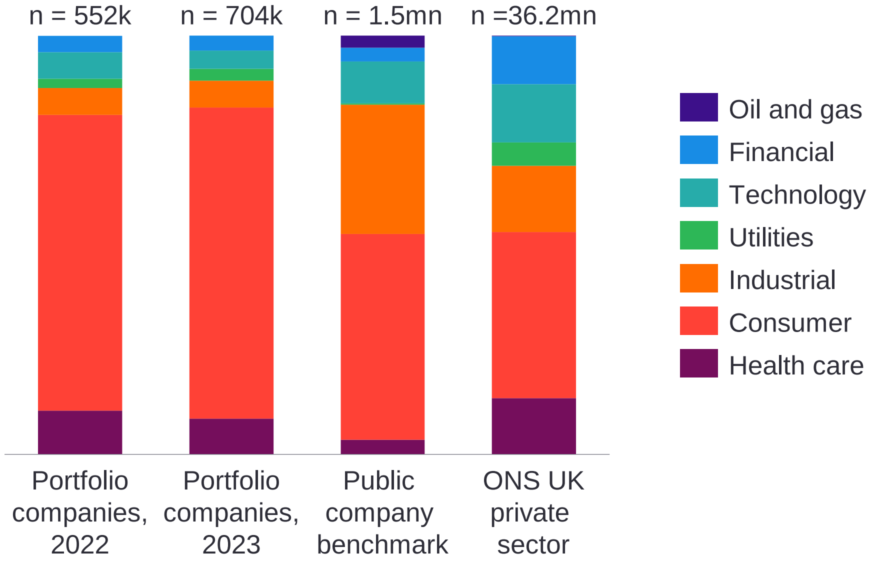
The findings in this report are aggregated across all portfolio company data points, to give insights into the systematic effects of PE ownership of the portfolio companies

- 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 with 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 YoY 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 either (i) 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 (ii) the result is presented excluding the outlier(s) and a separate bar or line is added to show the result if the outlier(s) is included.
- 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.

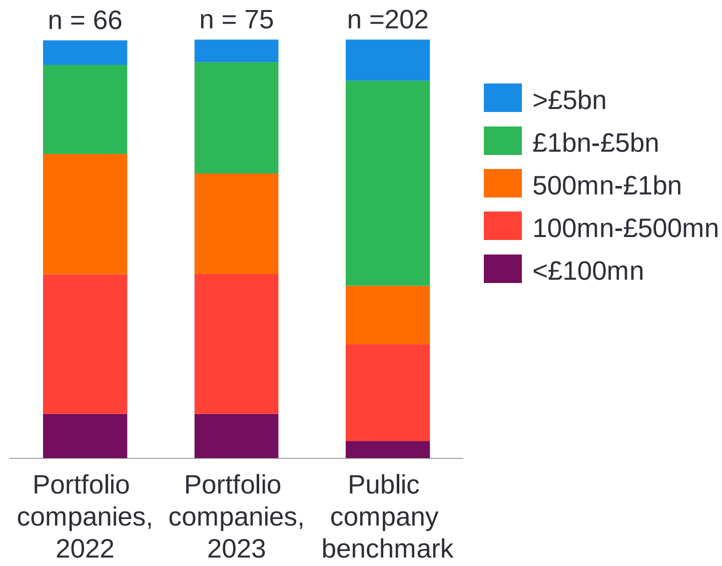
Is the profile of the portfolio companies skewed by sector or size?

The portfolio companies are skewed towards the Consumer and Health care sector, accounting for 83% of employment versus 53% 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 (based on revenue): 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, 83% of employment is in the Consumer and Health care sector, compared with 53% in the UK private sector. Conversely, portfolio company employment in the financial sector is 4% of the total, compared with 11% for the UK economy as a whole.

- The public company benchmark group has been selected based on a size range set at the largest and smallest deal sizes in the entire portfolio company group (CP+exits) from all companies listed on the London stock exchange (LSE).
- Within this range, the population of portfolio companies is smaller in terms of revenue size, with a larger share of portfolio companies (versus the public company benchmark) below £500mn in annual revenues and relatively few above £1bn.

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%	3%
Utilities	8%	3%
Industrials	11%	33%
Technology	15%	12%
Others	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:
  - In July 2024, the listing was obtained (from the LSE website) for the FTSE All-Share Index at that point, which comprised 565 primary listed companies on the LSE.
  - The following are excluded on the basis of no sector overlap with the portfolio companies: 307 companies 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), 28 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)
  - Two PLCs are excluded - i) one due to inconsistent EBITDA reported between Capital IQ and its annual report, and ii) one due to significant YoY trading volatility based on fair value movements given the sector it operates in (diversified financial services). Note: We have only sample checked a selection of public companies' capital IQ data to their audited accounts. This sample includes 19 PLCs, representing 34% of the total EBITDA of the benchmark population.
  - This results in 202 public companies in the benchmark group, with a sector composition as shown in the above table. Refer to the next page for more details on the steps to derive the public companies that are included in the benchmark population used in this report.
- Public company data is sourced from Capital IQ (Calendar year data) 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 (for example, the public company benchmark for revenue growth is weighted based on the revenue at acquisition for each respective portfolio company).
- When calculating the sector benchmarks for growth between two periods, only companies with Capital IQ data consistently available across the two respective periods are considered in the aggregated growth rate. There are certain instances where Capital IQ data is not consistently available for companies across all years.

How are the benchmarks derived and calculated? (cont.)

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

Public company benchmark (cont.)

	Numbers	Sub-sectors excluded in benchmark	Sub-sectors included in benchmark
PLC listing extracted from LSE | FTSE-All Share (A)	**565**		
Excluded based on sectors:			
Real estate	48	All sectors excluded	
Financials	234	a) Banks, b) Mortgages, c) Life and health insurance, and d) Financial exchange and data	a) Consumer finance, b) IB and brokerage, c) Property and casual Insurance, d) Specialised finance, and e) Transaction and payment processing services.
Materials	22	a) Diversified metals and mining, b) Copper, c) Gold, d) Steal, and e) Chemicals	a) Construction materials, and b) Paper and plastic packaging products and materials
Agricultural products and services	2		
Marine transportation	1		
Excluded based on sectors – total (B)	**307**		
Further exclusions:			
Companies with market cap > £11bn	26		
Companies with market cap < £210mn	28		
Other	2		
Further exclusions – total (C)	**56**		
Companies Included in PLC benchmark (A-B-C)	**202**		

Note: There is no specific definition for sector exclusion, it is based on judgement using Capital IQ's primary industry and excluding sectors that are not comparable with the BVCA population.

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 versus 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 Forum 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 £500mn 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 (£500mn) / total equity out (£1,500mn), 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.)

Impact of additional leverage (step 2)

All units in £mn	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) versus 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.

Returns attribution methodology – illustrative example (cont.)

Public stock market return (step 3)

All units in £mn	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 and 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 and 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 versus male versus 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	YoY

5

Appendix – objective and fact base

Key factors for consideration in this report

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

- This report covers a YoY analysis (2022, 2021 and 2020) impacted by the social and economic effects of the COVID-19 pandemic and subsequent recovery. 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 between 2020 and 2022 across the portfolio companies (both the long-term and current portfolio company cohorts), compared with pre-2020 results. This is evidenced in the table on the following page, which presents the average YoY growth rate and the standard deviation of results of the current portfolio (in each year) for 2018–2023.
  - This indicates a high standard deviation (an indication of higher deviation/dispersion in growth rates across the portfolio of companies) across the portfolio companies for revenue growth between 2020 to 2022.
  - EBITDA standard deviation growth was significantly high between 2020 and 2021 across the portfolio companies. However, it has returned to pre-2020 levels in 2023.
  - The distribution of employment growth results appears to have been less affected during the COVID-19 pandemic, likely due to the support of furlough schemes.
  - Capital employed shows a wide range of results across historical years, with no significant movement observed in 2023 compared ~~to~~ with 2022.
  - 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 skew (sector and size) in the portfolio companies when compared with the public benchmark. Additionally, the performance measures for the public company benchmark may benefit from a level of performance bias due to the methodology for calculating the benchmark each year. This is because underperforming companies fall out of the benchmark population if they reduce below the market capitalisation threshold or are delisted.
- 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. Note that the ONS benchmark data for the salary bands has not been available since 2022.
- 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 cannot be isolated.

Key factors for consideration in this report (cont.)

- 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.

	Average result (YoY)						Standard deviation (current PCs)					
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023
Revenue	2%	4%	(18%)	30%	15%	8%	10%	6%	24%	24%	21%	16%
EBITDA	7%	12%	(29%)	47%	7%	5%	23%	17%	75%	48%	25%	21%
Employment (# of jobs)	2%	2%	(6%)	2%	5%	2%	8%	16%	13%	15%	15%	13%
Employment cost per head	3%	4%	-	8%	5%	8%	7%	9%	11%	11%	10%	12%
Capital employed	5%	3%	32%	6%	2%	(2%)	81%	377%	550%	82%	60%	57%

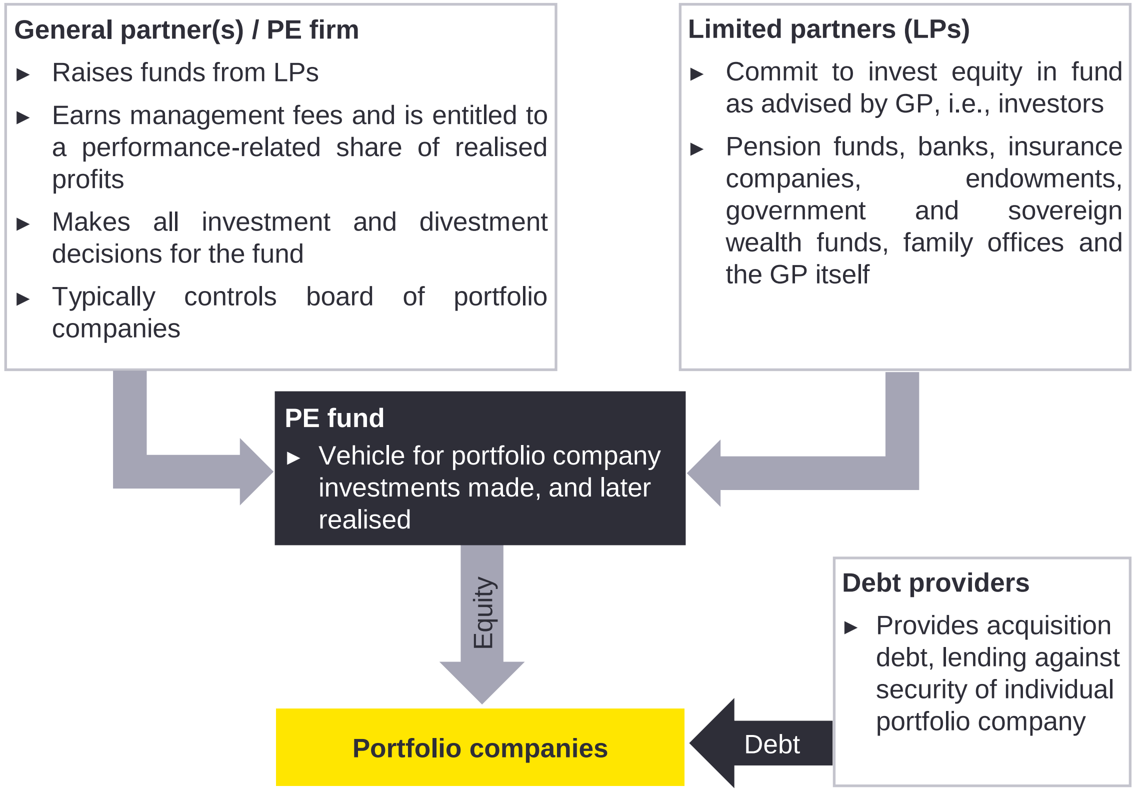
What are the distinctive features of the PE business model?

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:**
  - Limited partners (LPs) make an investment commitment to a PE fund of c.10 years. LPs include public pensions, wealth funds and public and private companies.
  - 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 PE 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.)

Movements in the number of portfolio companies included in the study

	Exist 2005–06	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
At 1 July		**37**	**42**	**47**	**43**	**64**	**73**	**72**	**70**	**61**	**59**	**50**	**55**	**55**	**61**	**64**	**73**	**81**	
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	10	12	**153**
Exits of portfolio companies	(9)	(5)	-	(4)	(2)	(3)	(8)	(10)	(16)	(13)	(12)	(8)	(9)	(4)	(5)	(6)	(2)	(3)	**(119)**
Portfolio companies at 30 Jun		**42**	**47**	**43**	**64**	**73**	**72**	**70**	**61**	**59**	**50**	**55**	**55**	**61**	**64**	**73**	**81**	**90**	
Exits and re-entrants		1	-	-	1	1	3	5	-	1	3	3	1	-	2	2	1	-	**24**
Number of exits by IPO		-	-	-	-	-	1	3	8	5	2	-	-	1	1	-	-	-	**21**

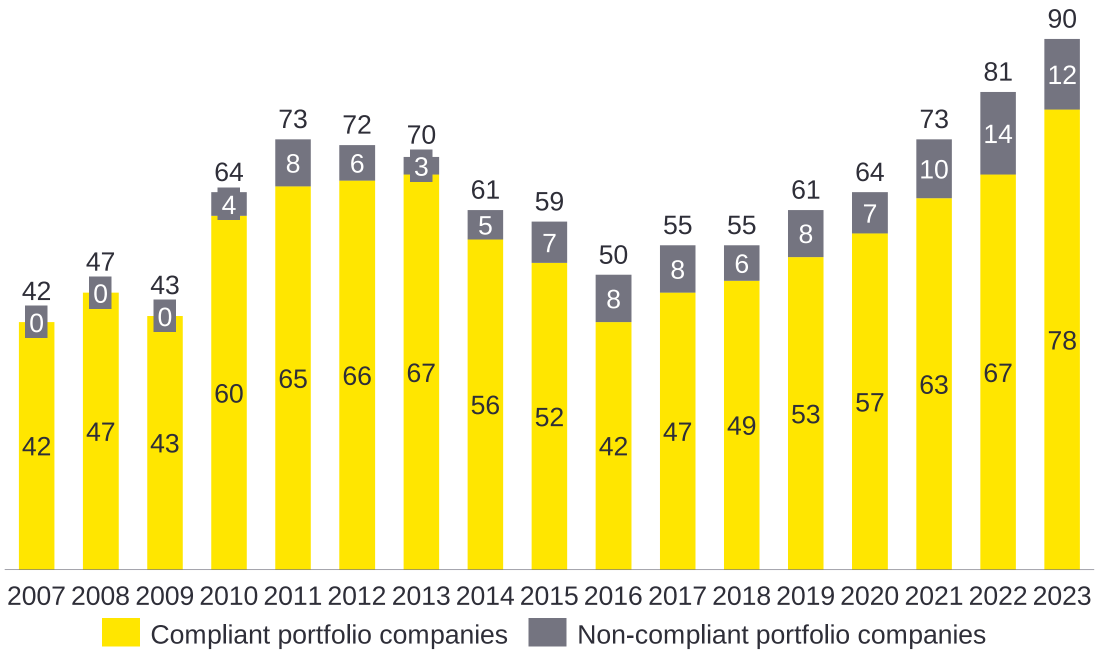
** Portfolio company excluded from scope*

- 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 Annington 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 80% of the total population (including historical exits) and 83% of the current portfolio companies (as defined by PERG). This year, compliance for the current portfolio companies was 78 of 90, or 87%

Number of portfolio companies on 31 December, and compliance



Data templates – Compliance and coverage %

Count	Current PC (2023)	Historical exits	Total (2023)
Total PCs (A)	**90**	**119**	**209**
Non-compliant PCs	(12)	(9)	(21)
Compliant PCs (B)	**78**	**110**	**188**
PCs not required to submit full data templates*	-	(17)	(17)
PCs provided explanation for non compliance	(2)	-	(2)
First year exemption	(1)	-	(1)
Templates received (C)	**75**	**93**	**168**
Compliance (%) - (B/A)	***87%***	***92%***	***90%***
Data coverage (%) - (C/A)	***83%***	***78%***	***80%***

Data templates

- ► Data template coverage: 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 portfolio companies has been excluded from our analysis (discussed further on page 74). The aggregated data in this report covers 80% of the total population (including historical exits) and 83% of the current portfolio companies.
- ► Data template compliance: Compliance by current portfolio companies is at 87% in 2023 and has ranged between 83%–90% historically since 2010.
- ► In many measures of performance, data covers both current portfolio companies as well as those owned and exited. The table opposite sets out the compliance status for both current PCs and historical exits.

Exit templates

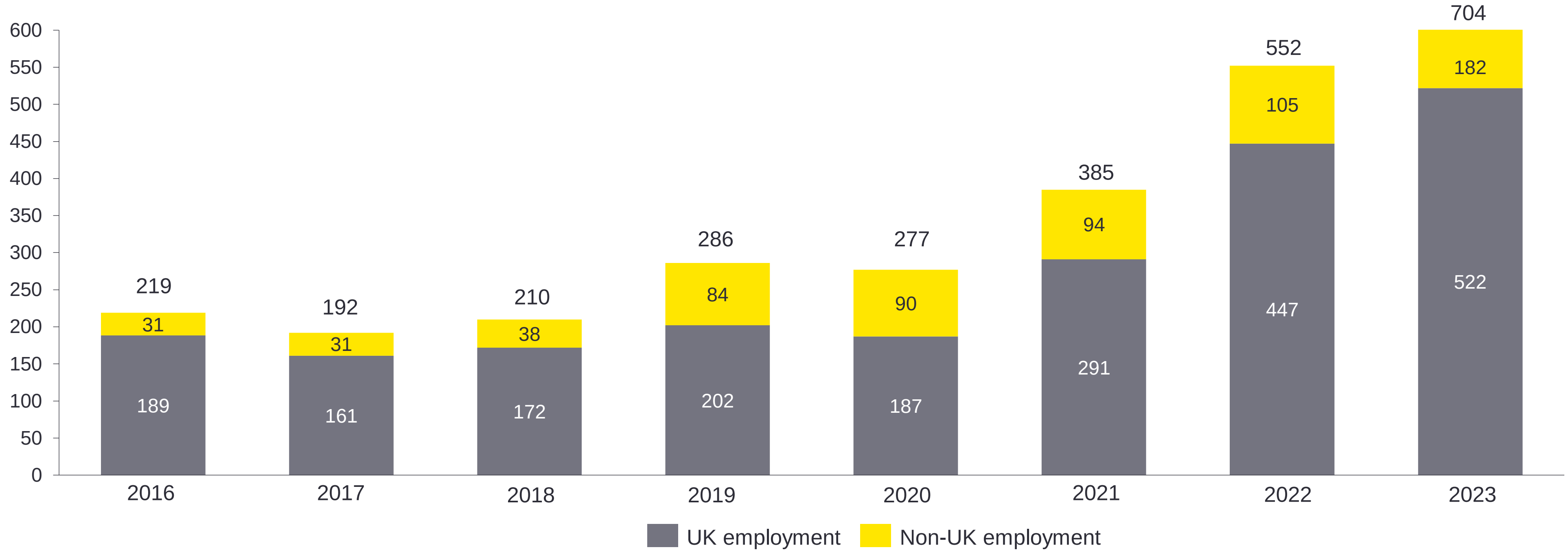
- ► Exit templates coverage (not shown in the table opposite): Exit templates are the key source of information for the returns attribution analysis, which is only measured on exits. Compliance for exit templates is 100 out of 119 or 84%. All of the three exits in 2023 are non-compliant.

** 17 PCs were not required to submit full data templates, of which i) 14 relate to exits in the period 2005–07, and ii) three relate to exits post 2007.*

How representative is the data set used in this report? (cont.)

Current portfolio companies in 2023 reported total employment of 704k (75 portfolio companies) including both UK and non-UK employees higher than the 552k in 2022

YoY employment for current PCs (represented by number of jobs)



N	42	47	49	53	57	61	66	75

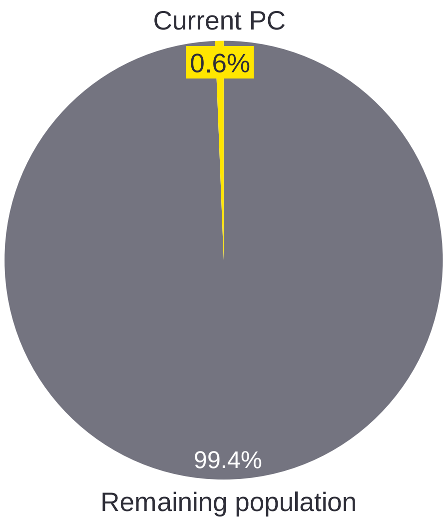
- The chart above shows total employment of the current portfolio companies in each respective year of the study.
- The 75 current portfolio companies in 2023 contributed 704k total number of jobs which compares with 552k total number of jobs contributed by the 66 current portfolio companies in the 2022 study.

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

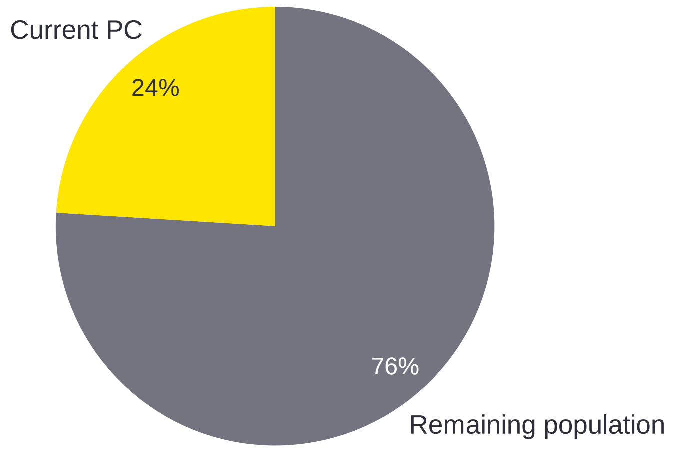
How representative is the data set used in this report? (cont.)

Current portfolio companies in this study represent c.1% of UK companies in PE and venture capital (VC) backed businesses and account for 24% of total employment of PE/VC backed businesses. (Source: Measuring the contribution of private equity and venture capital to the UK economy in 2023)

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



UK employment of current portfolio companies as % of UK PE/VC backed businesses



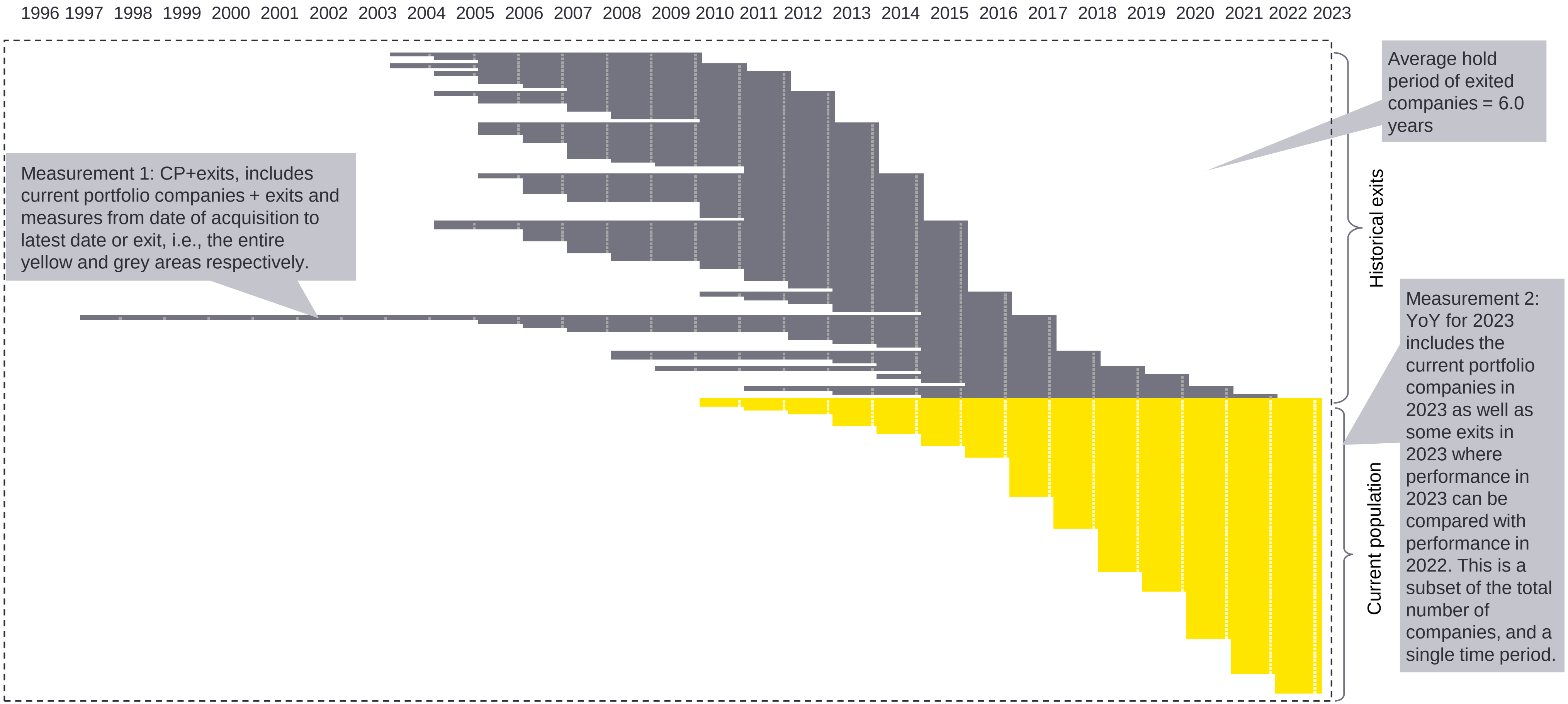
- The chart above represents the contribution of current portfolio companies to the UK PE/VC backed businesses in terms of, a) number current portfolio companies (75) in this report with the UK companies (12,000) in PE/VC backed businesses, and b) total number of UK employees (522k) in the current portfolio companies with the UK employees (2.2mn) 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 (Economic contribution of UK private equity and venture capital in 2023), published April 2023.

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 versus 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	Operating capital employed	Labour productivity	Revenue	Net debt	Returns attribution
► Reported	► Tangible fixed assets	Capital productivity	► Reported		
► Organic (excluding M&A)	► Operating working capital		► Organic (excluding M&A)		
Employment cost	► Capital expenditure		Profit, defined as earnings before interest, tax, depreciation and amortisation (EBITDA)		
► Average employment cost per head	► R&D		► Reported		
► Pension provision	M&A investment		► Organic (excluding M&A)		
► Gender diversity	Dividends (as alternative use of cash to investment)				

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. Refer to the Basis of findings section 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

1. The BVCA and EY contacted the PE firms in June 2024 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.
2. 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, amongst 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.
3. 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.
4. For four PCs, manual adjustments have been made to the data template to correct “At acquisition” data where the PC had reported “At acquisition” details incorrectly.
5. The data is not adjusted for any periodic changes in accounting policies. Thus, there may be YoY 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, or negative EBITDA in leverage calculations (portfolio companies and public company benchmark)). In order to reflect this, we have presented the n counts in each analysis, where applicable.

For further information

EY

- James Walker, Partner, Strategy and Transactions, Ernst & Young LLP – jwalker4@uk.ey.com
- Kelsey Gray, Director, Strategy and Transactions, Ernst & Young LLP – kelsey.gray@uk.ey.com
- Disha, Manager, Strategy and Transactions, Ernst & Young LLP – disha@uk.ey.com

BVCA

- Sarah Adams and Isobel Clarke, Directors of Policy – sadams.iclarke@bvca.co.uk
- Suzi Gillespie, Head of Research – sgillespie@bvca.co.uk
- Ciaran Harris, Senior Policy Manager – charris@bvca.co.uk
- Sidra Waheed – swaheed@bvca.co.uk
- https://www.bvca.co.uk/

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