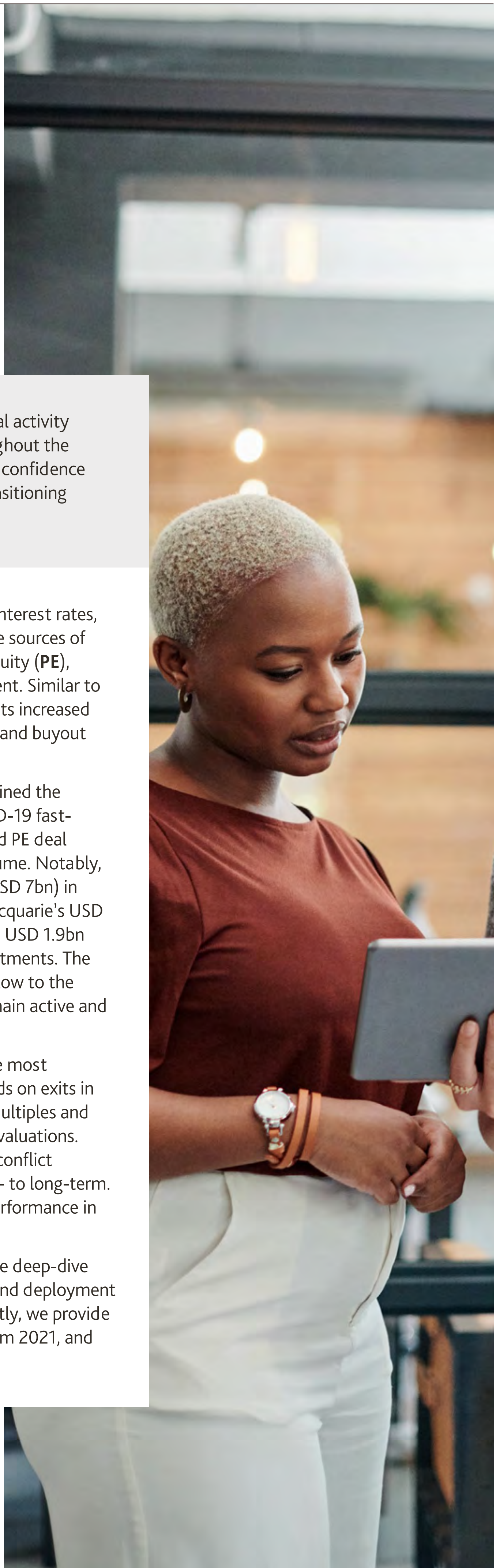
BDO'S PRIVATE EQUITY IN PERSPECTIVE REPORT 2021

IDEAS | PEOPLE | TRUST

INTRODUCTION



2021 began with growing optimism for a strong rebound in deal activity following the initial impact of the COVID-19 pandemic. Throughout the year, we did, in fact, see a resurgence in deal activity as market confidence returned with governments, corporates and investors alike transitioning towards a 'living in the new norm' mentality.

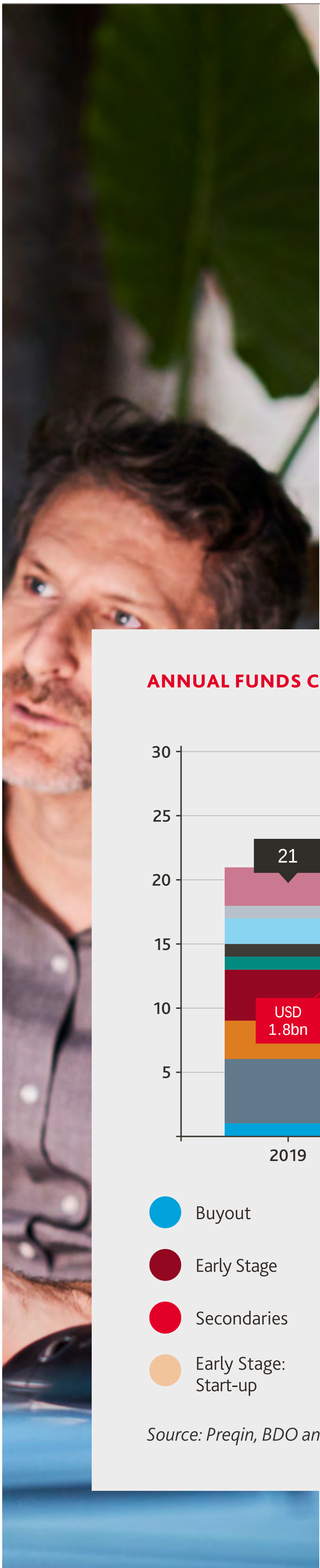
Australasia's economic backdrop, characterised by historically low interest rates, increased government stimulus and investors searching for alternate sources of returns, supported fundraising within capital markets. For Private Equity (**PE**), this resulted in record high dry powder accumulation and deployment. Similar to what we observed post-GFC, liquidity within debt and equity markets increased competition amongst General Partners (**GPs**), driving up valuations and buyout multiples across various sectors.

The technology, media and telecommunications (**TMT**) sector remained the primary beneficiary of current market dynamics in 2021, with COVID-19 fast-tracking the digitisation of the global economy. TMT consistently led PE deal volumes over the past three years at c.27% of total annual deal volume. Notably, the sector increased its share of total annual deal value to c.44% (USD 7bn) in 2021 from c.12% (USD 1.3bn) in 2020, with mega-deals such as Macquarie's USD 3.5bn acquisition of Vocus Group Limited, and BAI Communications USD 1.9bn sale to Alberta Investment Management Corporation and CPP Investments. The nature of the pandemic also brought increased attention and deal flow to the Pharma, Medical & Biotech sector. We believe these sectors will remain active and continue to generate significant deals and exits in the short-term.

Traditional asset sales to strategic buyers and other GPs remains the most common exit route for PE firm portfolio investments. Holding periods on exits in the last three years averaged approximately 4.5 years. Strong exit multiples and returns have been supported by increased leverage and heightened valuations. Given the outlook for macroeconomic conditions (Russia's Ukraine conflict notwithstanding), we expect this trend to normalise in the medium- to long-term. As it currently stands, there is no reason to believe PE's run of outperformance in returns against other asset classes will subside any time soon.

In this edition of BDO's Private Equity in Perspective Report 2021, we deep-dive into the trends defining the Australasian PE cycle from fundraising and deployment to exits and returns, as well as examine the global PE landscape. Lastly, we provide an outlook for 2022, outlining sectors likely to carry momentum from 2021, and the implications of broader macroeconomic factors.

SEBASTIAN STEVENS
Partner, Corporate Finance,
National Head of Private Equity

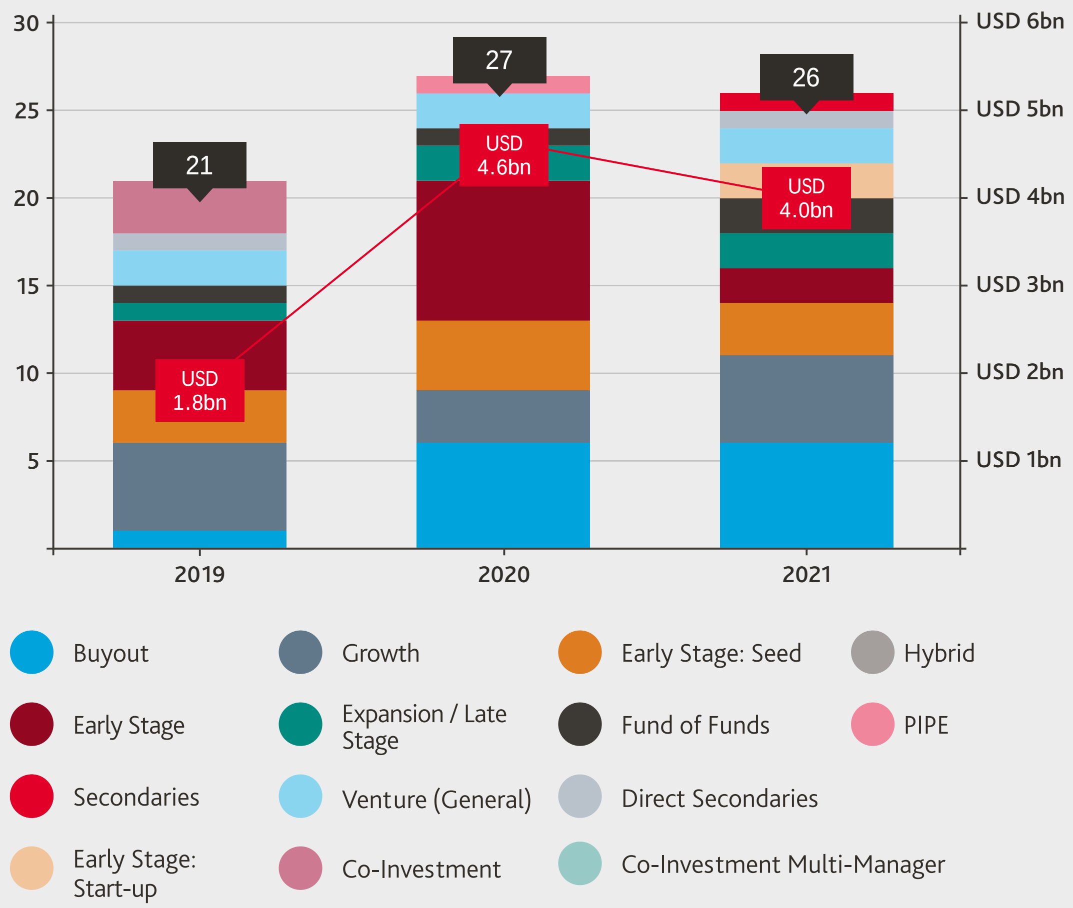


1 | AUSTRALASIA

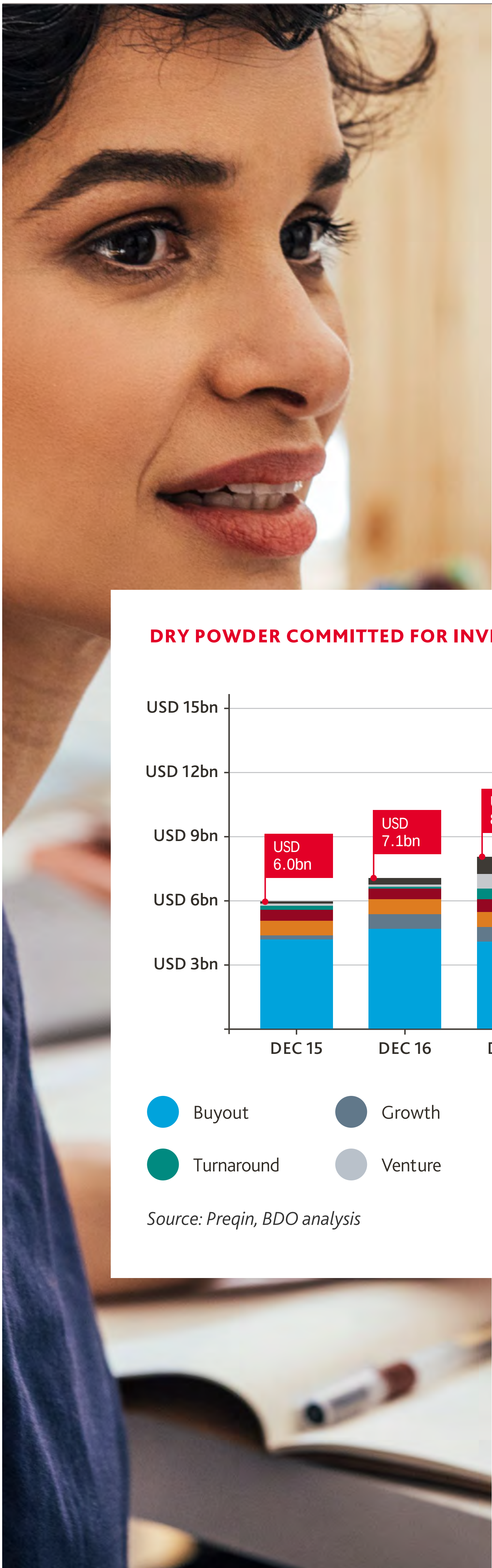
1.1 | FUNDRAISING

After a resilient 2020, the Australasian PE market was primed for a strong continuation of fundraising activity in 2021. Historically low borrowing rates, greater attention towards asset class diversification by Limited Partners (**LPs**), and most importantly, strong market confidence and positive investor sentiment, supported fundraising efforts in 2021 to the tune of USD 4.0bn in capital raised. While the number of funds closed annually has increased modestly from 21 in 2019 to 26 in 2021, the average fund size has grown markedly, from USD 86m in 2019 to USD 152m in 2021. The c.33% 2-year CAGR in average fund size highlights the growing attractiveness of the Australasian PE market, which continues to mature and develop.

ANNUAL FUNDS CLOSED (#) & TOTAL CAPITAL RAISED (USD BN)

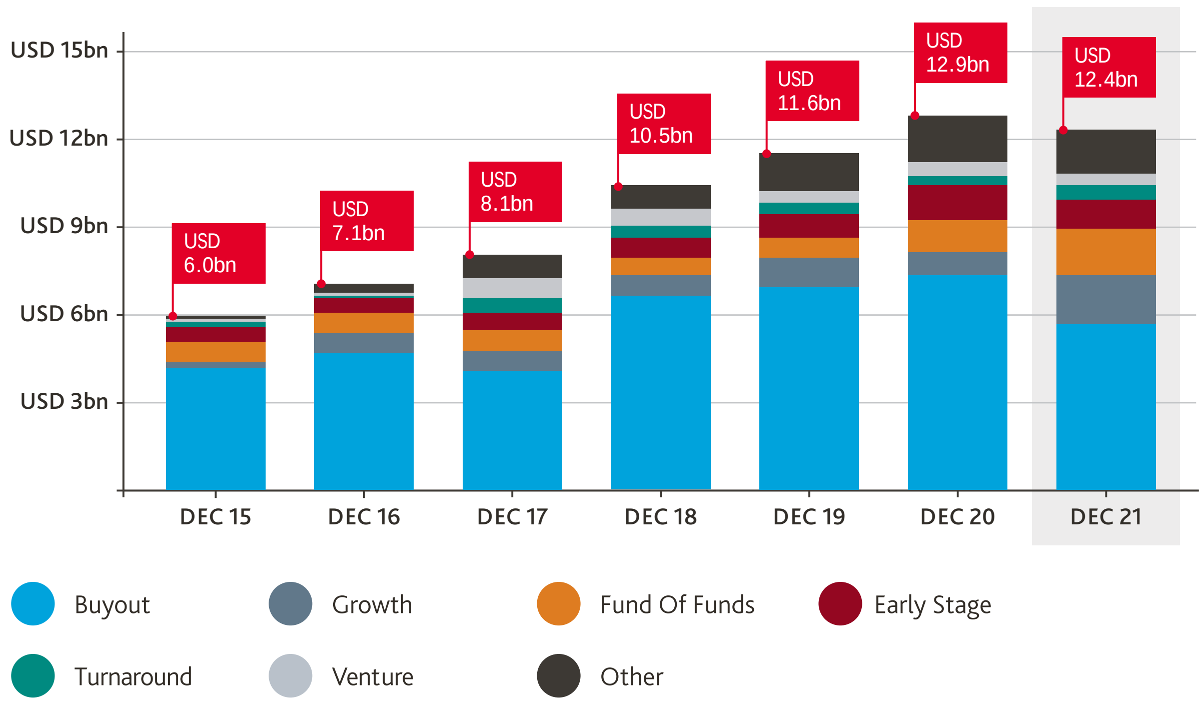


Source: Preqin, BDO analysis



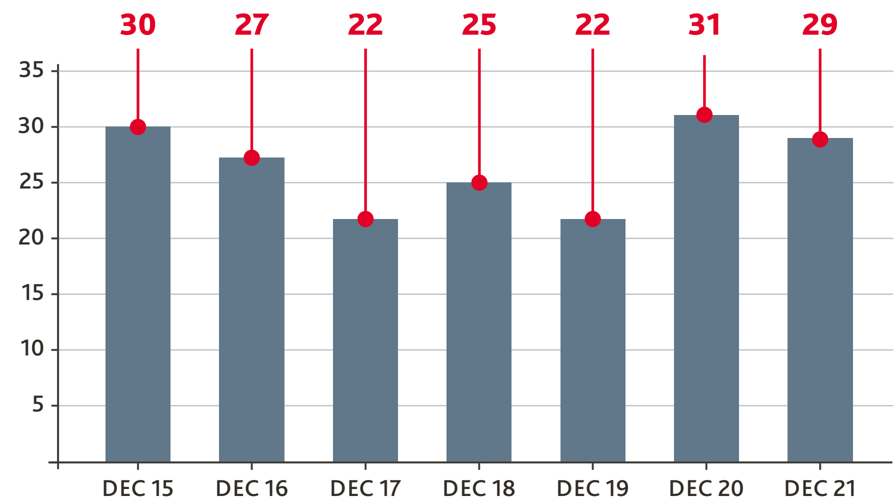
The strong year of fundraising saw dry powder as at Dec-21 remain at historic highs of over USD 12bn. Some may argue these figures indicate the over-accumulation of dry powder and a saturated market. However, our analysis of the average age of dry powder indicates accumulation and deployment is under control. Following the aftershocks of the GFC, PE firms were reinvigorated to deploy dry powder, resulting in a decrease in the average age of dry powder from 2.5 years' (or 30 months') worth of investments at Dec-15 to 1.8 years (or 22 months) at Dec-17. This largely remained stable until 2020. The COVID-19 pandemic diminished market confidence, causing reluctancy to deploy dry powder and increasing the average age of dry powder at Dec-20 to 2.6 years (or 31 months). The subsequent rebound observed in capital markets saw the average age of dry powder at Dec-21 reduce to approximately 2.5 years' (or 29 months') worth of investment – a figure roughly in line with historical trends.

DRY POWDER COMMITTED FOR INVESTMENT IN AUSTRALASIA



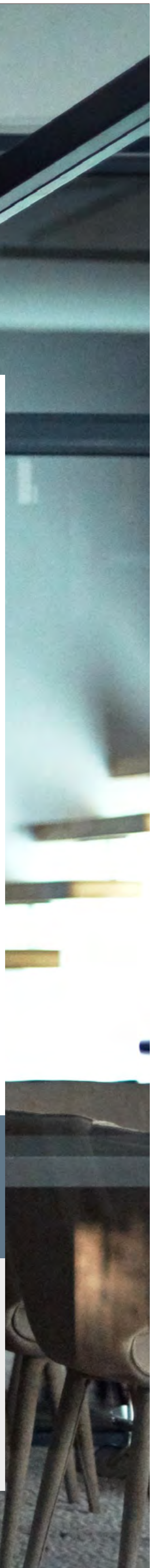
Source: Preqin, BDO analysis

AVERAGE AGE OF DRY POWDER (MONTHS)



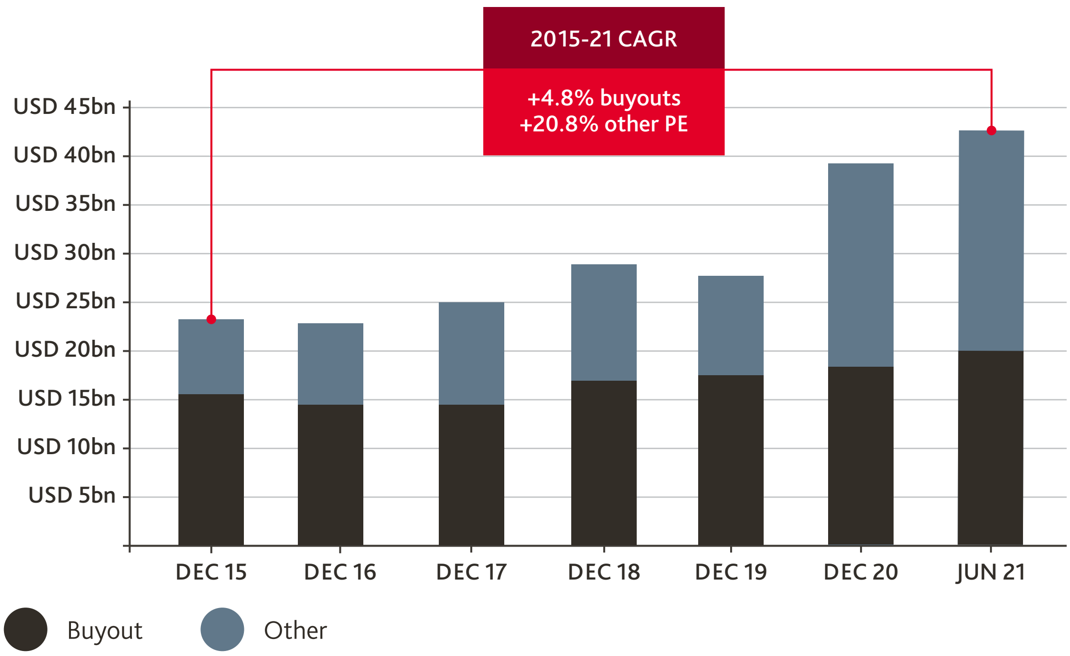
Note: Average age of dry powder estimated as a weighted average of dry powder by vintage year

Source: Preqin, BDO analysis



Unsurprisingly, total assets under management (**AUM**), inclusive of dry powder and unrealised value from portfolio companies, for Australasian-focused PE firms reached record levels in 2021. Latest available data from Preqin estimates USD 43bn of AUM as at Jun-21. Buyout funds remain the staple of the PE sector, albeit at a declining rate. The concentration of AUM attributable to buyout funds decreased from c.66% as at Dec-15 to c.46% as at Jun-21. AUM for non-buyout PE funds have grown almost 5 times faster than traditional buyouts in the last five years. Classic buyout funds focus on finding value across various sectors, with the aim to build a diversified portfolio. However, PE firms have shifted towards specialising in niche areas, such as subsector-specialised funds, early stage/growth funds, and funds of funds, to further demonstrate their expertise to investors.

ASSETS UNDER MANAGEMENT FOR AUSTRALASIAN PE FIRMS – BUYOUT VS OTHER



Note 1: AUM is the sum of dry powder and unrealised value. 'Other' includes early stage, growth, venture, funds of funds, expansion/late stage, turnarounds and secondaries.

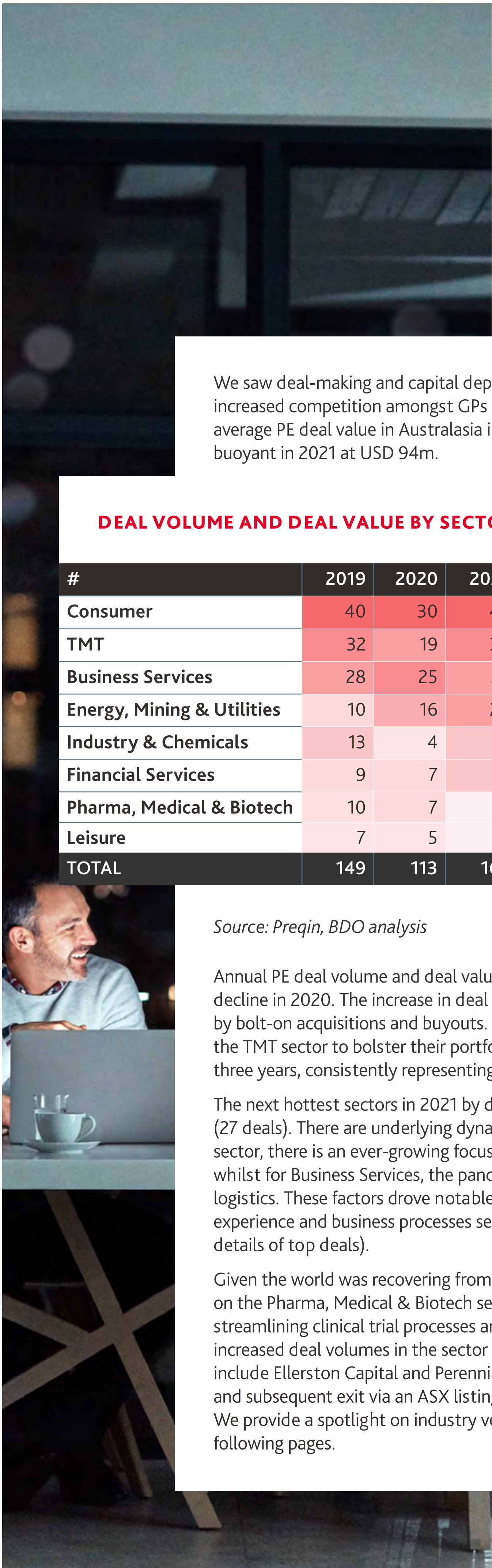
Note 2: The figure above is limited to the latest available data from Preqin at the time of this report. The latest available data was at Jun-21.

Source: Preqin, BDO analysis

Over recent years there has been a move away from traditional generalist funds in favour of an increase in specialist subsector Private Equity funds such as early-stage and growth funds. Advent provide their view on what is driving the increased attraction to non-generalist focussed PE.

Ultimately, these trends are consistent with a maturing of the private investment industry in Australia & New Zealand. Continued segmentation across not only stage of investment (e.g. growth capital), but also industry vertical specialisation recognises that different firms have developed unique expertise to generate alpha in their chosen target markets. This specialisation has improved fund returns, which in terms has attracted more capital.

– BRAD LYNCH, PARTNER, ADVENT PARTNERS



1.2 | CAPITAL DEPLOYMENT & DEAL-MAKING

We saw deal-making and capital deployment rocket in 2021. The favourable economic backdrop and increased competition amongst GPs induced heightened valuations towards the back end of 2020. The average PE deal value in Australasia increased from USD 80m in 2019 to USD 96m in 2020 and remained buoyant in 2021 at USD 94m.

DEAL VOLUME AND DEAL VALUE BY SECTOR

#	2019	2020	2021
Consumer	40	30	43
TMT	32	19	33
Business Services	28	25	27
Energy, Mining & Utilities	10	16	26
Industry & Chemicals	13	4	16
Financial Services	9	7	13
Pharma, Medical & Biotech	10	7	5
Leisure	7	5	4
TOTAL	149	113	167

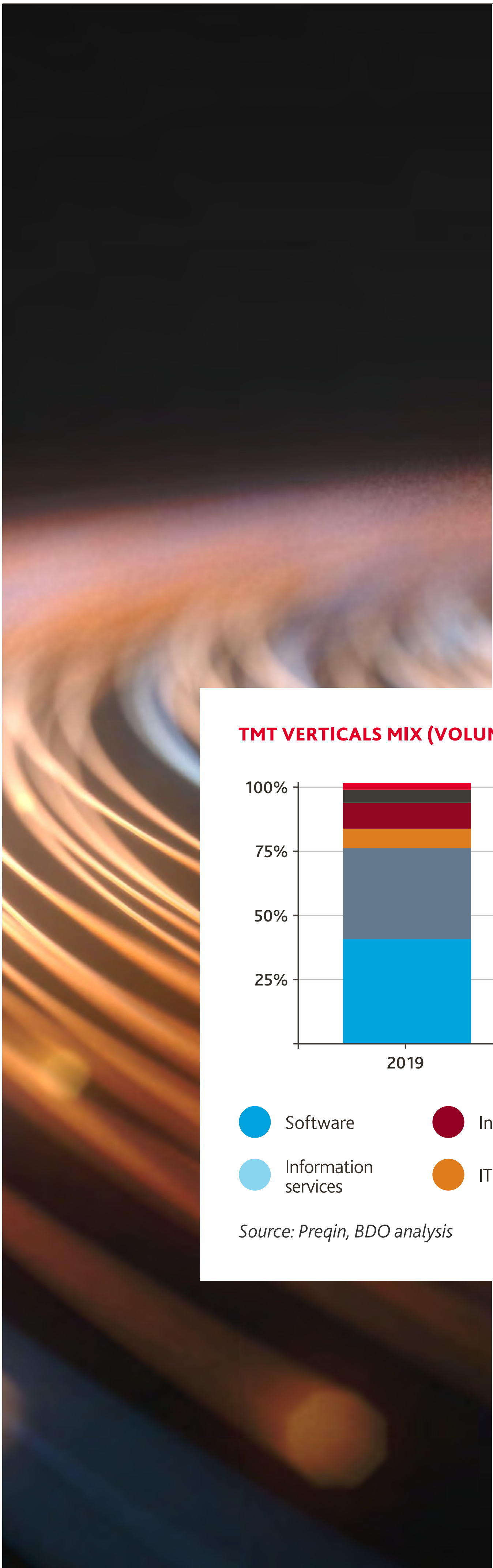
USD m	2019	2020	2021
Consumer	236	1,332	6,964
TMT	4,381	837	1,480
Business Services	1,100	3,304	1,113
Energy, Mining & Utilities	4,161	961	998
Industry & Chemicals	244	64	579
Financial Services	257	1,520	3,638
Pharma, Medical & Biotech	1,447	1,102	226
Leisure	139	1,685	660
TOTAL	11,965	10,805	15,658

Source: Preqin, BDO analysis

Annual PE deal volume and deal value both increased by over 40% in 2021, after a pandemic-induced decline in 2020. The increase in deal volume from 113 in 2020 to 167 in 2021 (up 54 deals) was driven by bolt-on acquisitions and buyouts. Our sector heatmaps indicate PE firms continue to turn towards the TMT sector to bolster their portfolios. TMT has been the hottest sector by deal volume over the last three years, consistently representing a quarter of annual deal volumes.

The next hottest sectors in 2021 by deal volume was Consumer (33 deals), followed by Business Services (27 deals). There are underlying dynamics driving deal flow within these sectors. For the Consumer sector, there is an ever-growing focus to improve e-commerce and the customer/user experience, whilst for Business Services, the pandemic drew a spotlight on the need to sure up supply chain and logistics. These factors drove notable deals such as KKR's acquisition of Probe Group Pty Ltd, a customer experience and business processes service provider, in Sep-21 for USD 800m (see Section 1.3 for further details of top deals).

Given the world was recovering from a health pandemic, it was natural for more attention to be placed on the Pharma, Medical & Biotech sector. The emphasis on supporting medical device manufacturing, streamlining clinical trial processes and increased investment in biotechnological advancement increased deal volumes in the sector from 10 in 2019 to 26 in 2021. Recent notable PE-backed deals include Ellerston Capital and Perennial Value Management's acquisition of Lumos Diagnostic in 2019, and subsequent exit via an ASX listing in 2021, which BDO assisted in as Independent Accountants. We provide a spotlight on industry verticals for the TMT and Pharma, Medical & Biotech sectors on the following pages.

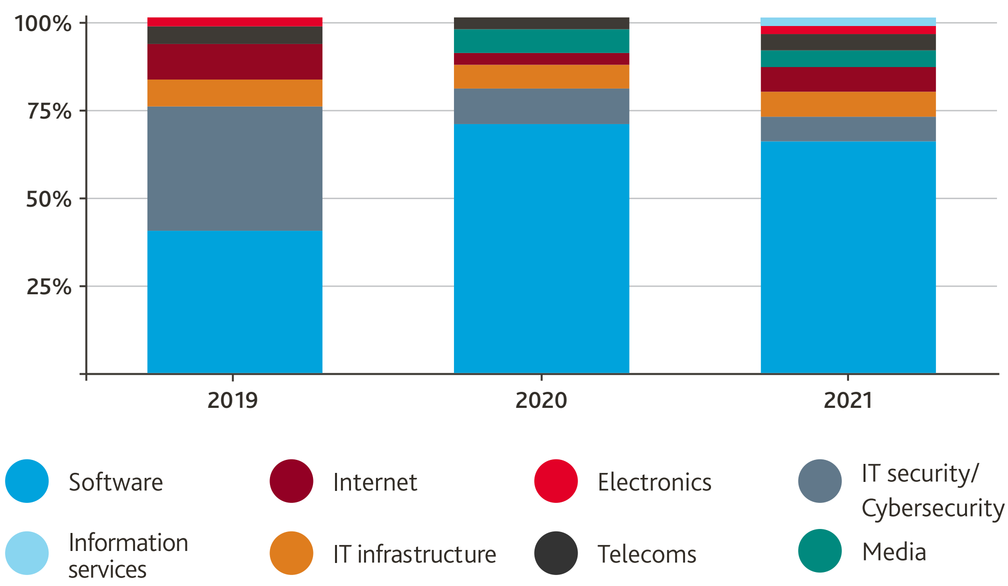


TMT INDUSTRY VERTICAL

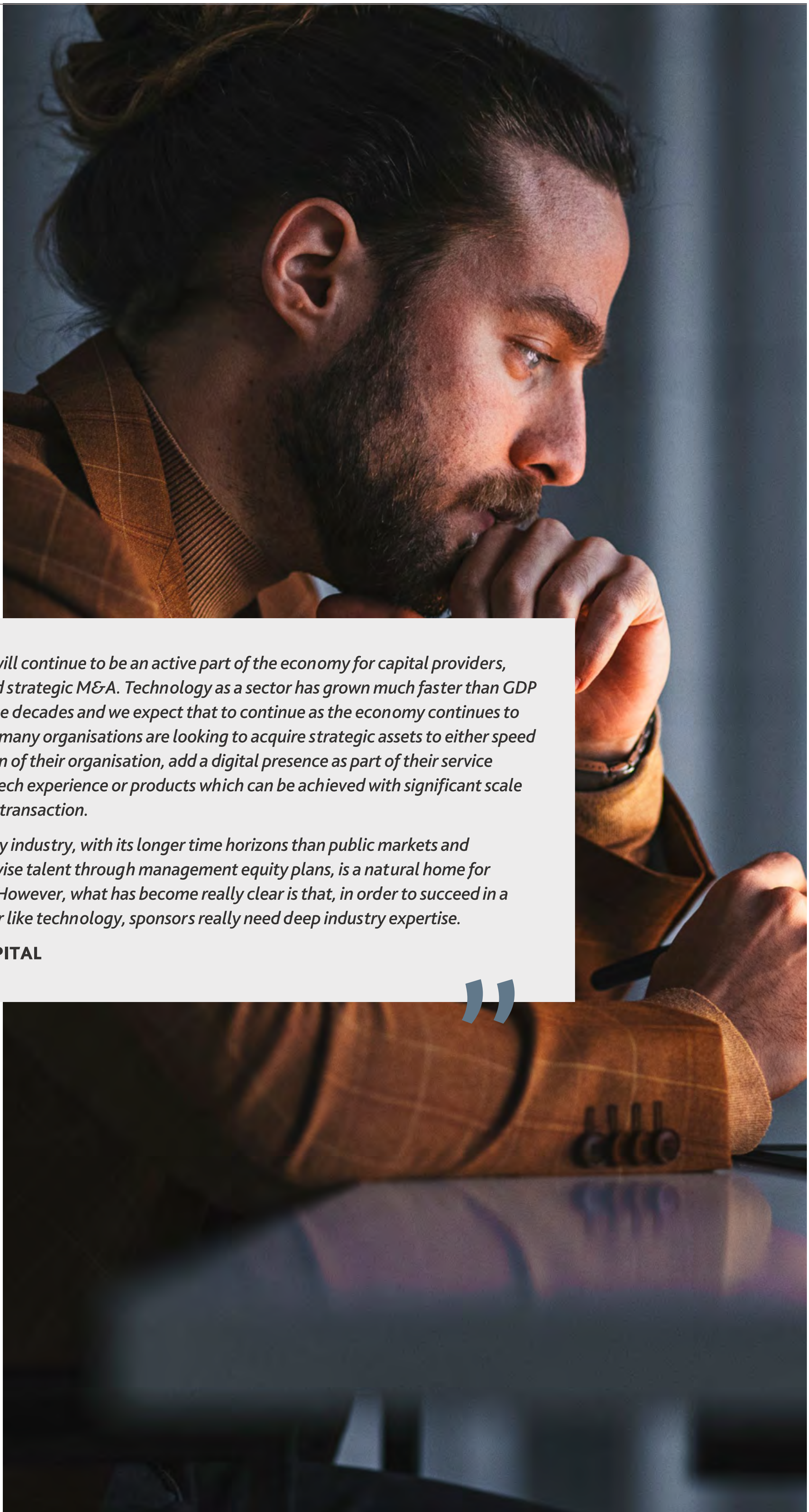
The TMT sector has always been a source of returns for PE firms. The most popular vertical within TMT is software with 28 deals in 2021, representing c.65% of deals for the sector in 2021, up from c.40% in 2019. Software businesses are highly attractive to PE given their highly scalable nature and relatively fixed cost base.

Telecoms is another TMT vertical of interest, especially within a more interconnected and digitised world. Telecoms had two landmark PE-backed deals in 2021: Vocus Group Limited's sale to Voyage Australia Pty Limited (a consortium of Macquarie Infrastructure and Real Assets and Aware Super) in Feb-21 for USD 3.5bn, and Alberta Investment Management Corporations and CPP Investment Board's acquisition of BA Communications Pty Ltd in Jun-21 for USD 1.9bn. There has been a visible decline in deal volumes for IT security/Cybersecurity since 2019, a year which saw BGH Capital complete 12 deals within the vertical. BGH Capital's roll-up in 2019 expanded their cybersecurity services and created one of Australia's largest independent cybersecurity companies.

TMT VERTICALS MIX (VOLUME)



Source: Preqin, BDO analysis



The TMT sector will continue to be an active part of the economy for capital providers, trade players and strategic M&A. Technology as a sector has grown much faster than GDP over the last three decades and we expect that to continue as the economy continues to digitise. Further, many organisations are looking to acquire strategic assets to either speed up the digitisation of their organisation, add a digital presence as part of their service offering or gain tech experience or products which can be achieved with significant scale and speed with a transaction.

The private equity industry, with its longer time horizons than public markets and ability to incentivise talent through management equity plans, is a natural home for tech businesses. However, what has become really clear is that, in order to succeed in a specialised sector like technology, sponsors really need deep industry expertise.

POTENTIA CAPITAL

PHARMA, MEDICAL & BIOTECH INDUSTRY VERTICAL

COVID-19 brought public health to the forefront of our minds. The PE market responded with increased deal activity within the sector to capitalise on gaps within medical device manufacturing, clinical trials and drug manufacturing. Pharma, Medical and Biotech deals accounted for c.15% of 2021 total PE deal volumes, up from only c.6% in 2019. Within this sector, the biotechnology vertical has seen an increase from zero deals in both 2019 and 2020 to five in 2021. The opportunity within the healthcare space caught the eye of some of Australasia's largest PE firms, with Quadrant acquiring Cancer Care Pty Limited in Dec-21 for USD 71m, and Sunsuper and QIC acquiring Evolution Healthcare Pty Ltd in Dec-21 for USD 499m. In addition to these larger deals, healthcare experienced firms such as Livingbridge, The Riverside Company, and Alceon have had consistent deal activity within Australasia in 2021.

Healthcare deal volumes have increased significantly from 2020 to 2021, what do you attribute the increase in Private Equity healthcare deals in 2021 to?

Private equity firms revisited their investment strategies in light of COVID-19. Whilst there has been disruption in some physical settings, the provision of healthcare is still an essential service. This provides a level of resilience that fund managers value in their portfolio.

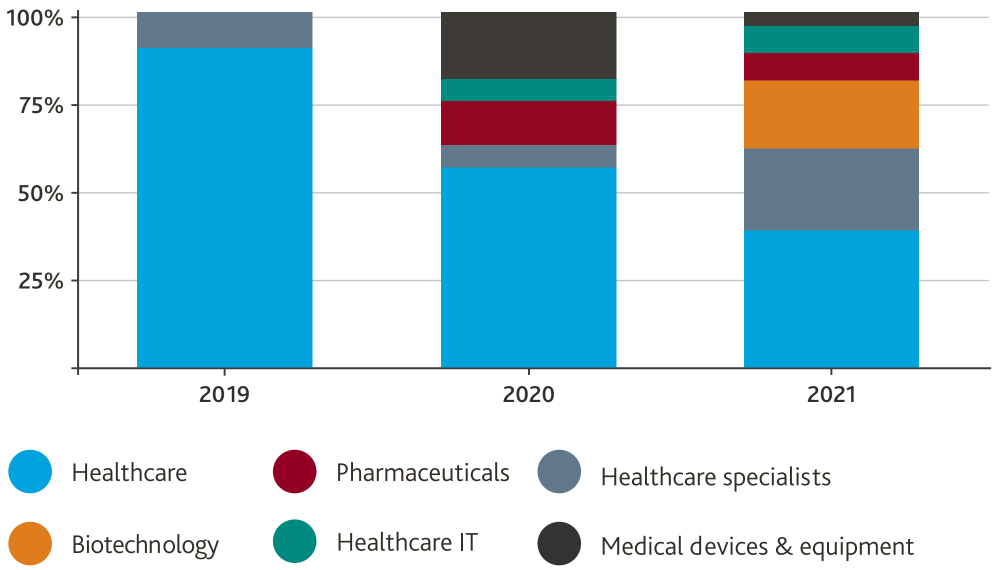
GARETH YOUNG,
MANAGING DIRECTOR (AUSTRALIA) - LIVINGBRIDGE

Are there any observations on the Healthcare deal outlook that you are able to share?

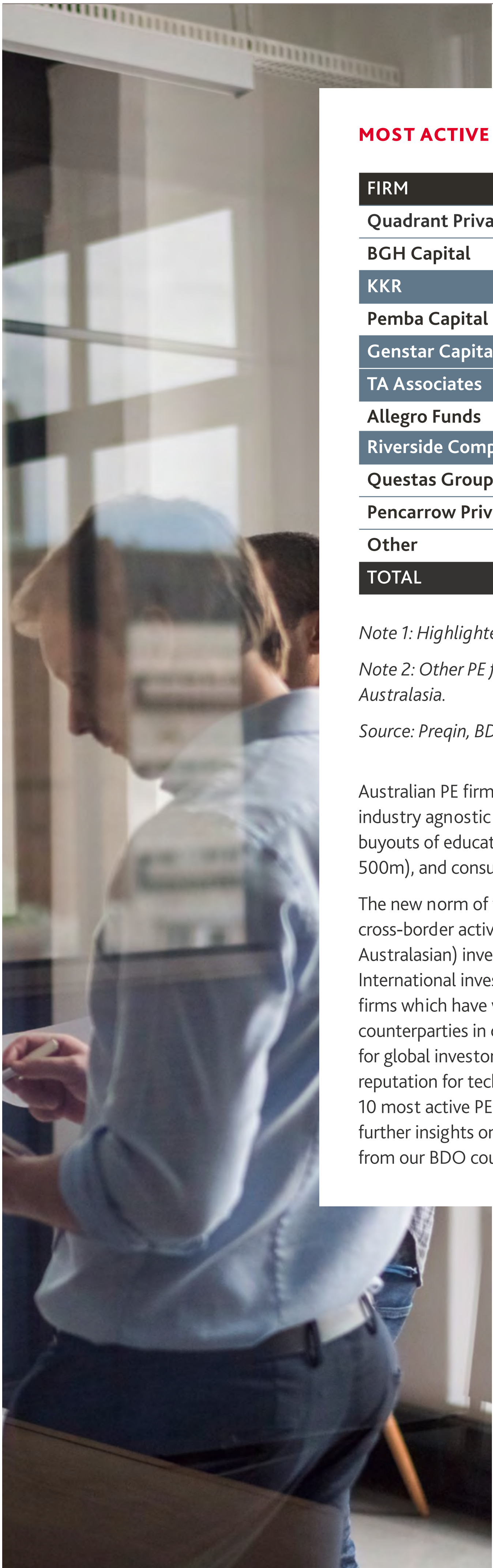
Demand drivers for healthcare are robust. The biggest challenge has been the source of supply. Travel restrictions, Brexit and a very buoyant employment market have resulted in skills shortages. In our healthcare investments we are focusing on our value proposition to medical professionals.

GARETH YOUNG,
MANAGING DIRECTOR (AUSTRALIA) - LIVINGBRIDGE

PHARMA, MEDICAL & BIOTECH VERTICAL MIX (VOLUME)



Source: Preqin, BDO analysis



MOST ACTIVE PE FIRMS IN AUSTRALASIA IN 2021

FIRM	FIRM'S COUNTRY	DEAL COUNT (#)
Quadrant Private Equity	Australia	12
BGH Capital	Australia	6
KKR	US	6
Pemba Capital Partners	Australia	5
Genstar Capital Partners	US	4
TA Associates	US	4
Allegro Funds	Australia	4
Riverside Company	US	4
Questas Group	Australia	3
Pencarrow Private Equity	New Zealand	3
Other	Various	261
TOTAL		312

Note 1: Highlighted rows indicate international (non-Australasian) PE firm.

Note 2: Other PE firms refer to those outside the top 10 in terms of deal volume in Australasia.

Source: Preqin, BDO analysis

Australian PE firm, Quadrant, were the busiest dealmakers in 2021. As a largely industry agnostic firm, Quadrant were involved in 12 deals in 2021, with the notable buyouts of education provider, Affinity Education Group Limited in Jun-21 (USD 500m), and consulting group, TSA Management (USD 155m) in Mar-21.

The new norm of virtual due diligence and dealmaking has enabled greater cross-border activity. Annual volume of PE deals involving an international (non-Australasian) investor increased by c.90%, from 100 in 2019 to 190 in 2021. International investment into Australasia is largely driven by North American PE firms which have wider geographic mandates and larger capital war chests than counterparties in other regions. Furthermore, Australasia is becoming a safe haven for global investors, given the stable political climate, strong economic outlook, and reputation for technology and innovation. As a result, in 2021 we saw four of the top 10 most active PE firms in Australasia being from the United States of America. For further insights on the global PE landscape and inbound deal activity into Australia from our BDO counterparts in North America and Europe see Section 2.

AUSTRALASIAN DEAL VOLUME AND DEAL VALUE BY PE/ INVESTORS REGION

#	2019	2020	2021
Australasia	135	90	122
International	100	83	190
North America	65	60	136
Europe	27	21	38
Asia	6	2	14
Africa	1	-	-
Latin America & Caribbean	-	-	1
Middle East	1	-	1
TOTAL	235	173	312

USD m	2019	2020	2021
Australasia	6,322	3,402	10,829
International	13,895	13,538	21,115
North America	12,492	10,129	17,564
Europe	967	3,155	2,428
Asia	423	253	1,123
Africa	14	-	-
Latin America & Caribbean	-	-	-
Middle East	1	-	-
TOTAL	20,217	16,940	31,943

Source: Preqin, BDO analysis

There is an increase in cross border Private Equity transactions from North America/Europe to Australasia, what characteristics of the Australasian market is appealing to North American/European Private Equity firms?

Global private equity firms have been in the Australian market for at least a decade and were behind some of the largest private equity deals last year. The Australasian private equity market is less mature, but as a region, Australia is economically and politically stable. Facing fierce local competition and high asset price tags, U.S. growth capital funds and buyout funds are expanding their reach into regions that offer these kinds of qualities.

SCOTT HENDON, INTERNATIONAL LIAISON PARTNER AND GLOBAL AND NATIONAL LEADER OF PRIVATE EQUITY BDO USA, LLP

European PE is on the constant hunt for growth and the dynamic economies in Australasia are seen as providing opportunities to boost returns. There is also a perception that pricing is lower which is fuelling interest. If you are in Australia or New Zealand with access to Asian markets, I suspect you are in a good place as a bridge to investing in those economies as well as providing access to ever burgeoning domestic opportunities.

JAMIE AUSTIN, HEAD OF PRIVATE EQUITY BDO UK LLP

1.3 | TOP 5 DEALS OF 2021

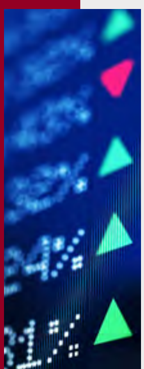
The top 5 deals represent c.59% of total PE deal value in 2021. An overview of the top 5 deals is provided below:

DEAL 1

PORTFOLIO COMPANY	Vocus Group Limited
VALUE	USD 3.5bn
SECTOR	TMT
ACQUIRER(S)	Macquarie Asset Management, Aware Super
INVESTMENT TYPE	Private Investment in Public Entity
DATE	February 2021

Vocus Group Limited, Australia's specialist fibre and network solutions provider, has entered a Scheme Implementation Deed to be acquired by Voyage Australia Pty Limited's 100% acquisition of Vocus Group Limited for USD $3.5bn, resulting in the delisting of Vocus from the Australia Securities Exchange (**ASX**). This deal will provide Voyage the foundation and capacity to build on Vocus' fibre infrastructure network and take advantage of the growth of the digital economy.

DEAL 2



PORTFOLIO COMPANY	Link Administration Holdings Ltd
VALUE	USD 2.5bn
SECTOR	Financial Services
ACQUIRER(S)	Dye & Durham Corporation, Manulife Capital, OMERS
INVESTMENT TYPE	Bolt-on
DATE	December 2021

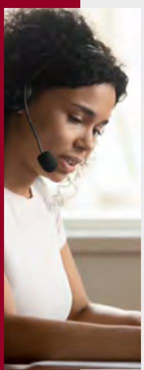
Share registry and superannuation administrator, Link Administration Holdings was acquired by a consortium consisting of Dye & Durham, Manulife Capital and OMERS for USD 2.5bn in Dec-21. The consortium successfully out-bid private equity firms The Carlyle Group and Pacific Equity Partners. The acquisition was primarily driven by the overlap of customers in Link Administration's corporate markets business and Dye & Durham's core legal business. As part of the acquisition, Dye & Durham also acquired Link Group's 43% ownership stake in Property Exchange Australia.

DEAL 3

PORTFOLIO COMPANY	BAI Communications Pty Ltd
VALUE	USD 1.9bn
SECTOR	TMT
ACQUIRER(S)	Alberta Investment Management Corporation, CPP Investment Board
INVESTMENT TYPE	Growth Capital
DATE	June 2021

Multinational communications infrastructure company, BAI Communications has its sights set on global expansion – namely in the United States - after securing growth capital as part of the second biggest Australasian PE deal in FY21. Since the deal was made BAI Communications has announced the pending acquisition of Mobilitie – a neutral-host infrastructure provider - in Aug-21, to further accelerate its growth.

DEAL 4



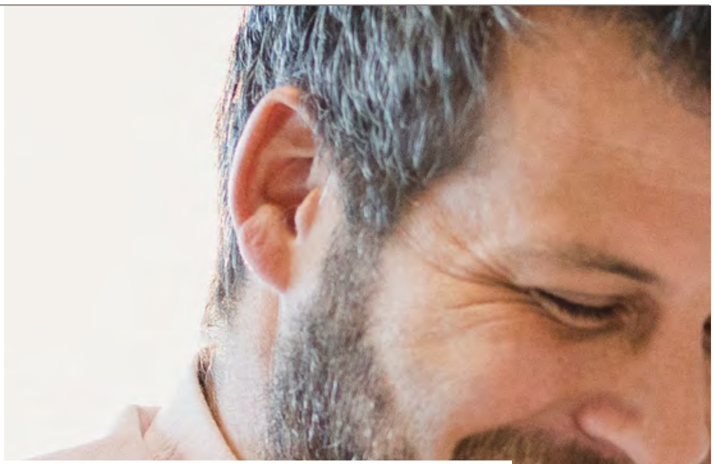
PORTFOLIO COMPANY	Probe Group Pty Ltd
VALUE	USD 800m
SECTOR	Business Services
ACQUIRER(S)	KKR
INVESTMENT TYPE	Buyout
DATE	September 2021

Probe Group Pty Ltd is a leading customer experience and business process outsourcing service provider in Australia and New Zealand. KKR's USD 800m acquisition of Probe marks their first major investment in Australia from their USD 15bn Asian Fund IV (raised in Apr-21). The deal also involved two Australian PE firms on the sell-side, Quadrant and Five V Capital.

DEAL 5

PORTFOLIO COMPANY	Challenger Limited
VALUE	USD 540m
SECTOR	Financial Services
ACQUIRER(S)	Apollo Global Management Athene Group
INVESTMENT TYPE	Private Investment in Public Entity
DATE	July 2021

Challenger Limited is a public investment management firm providing funds and asset management services. American private equity firm, Apollo Global Management and its insurance affiliate, Athene Group, acquired an 18% stake of Challenger for USD 540m. This strategic acquisition gives US based Apollo and Athene an opportunity to enter the Australian geographic region.

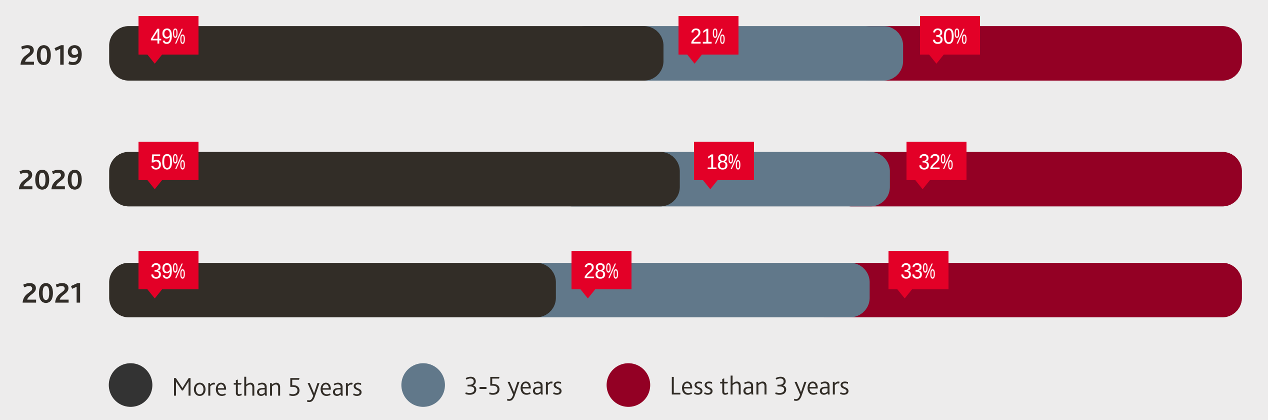


1.4 | EXITS & RETURNS

PE investments are typically regarded as medium- to long-term investments. Over the holding period, PE firms focus on value-add initiatives for their portfolio companies, in order to generate high returns upon exit. Earnings are subsequently distributed to investors, allowing LPs and GPs to restart the PE funding cycle.

Average holding periods since 2019 remain within the traditional range of three to five years. We note a slight decrease in average holding periods from 4.7 years in 2019 to 4.4 years in 2021. A larger portion of exits in 2021 came within a five-year holding period, as PE firms cashed in during favourable conditions.

HOLDING PERIODS ON EXITS



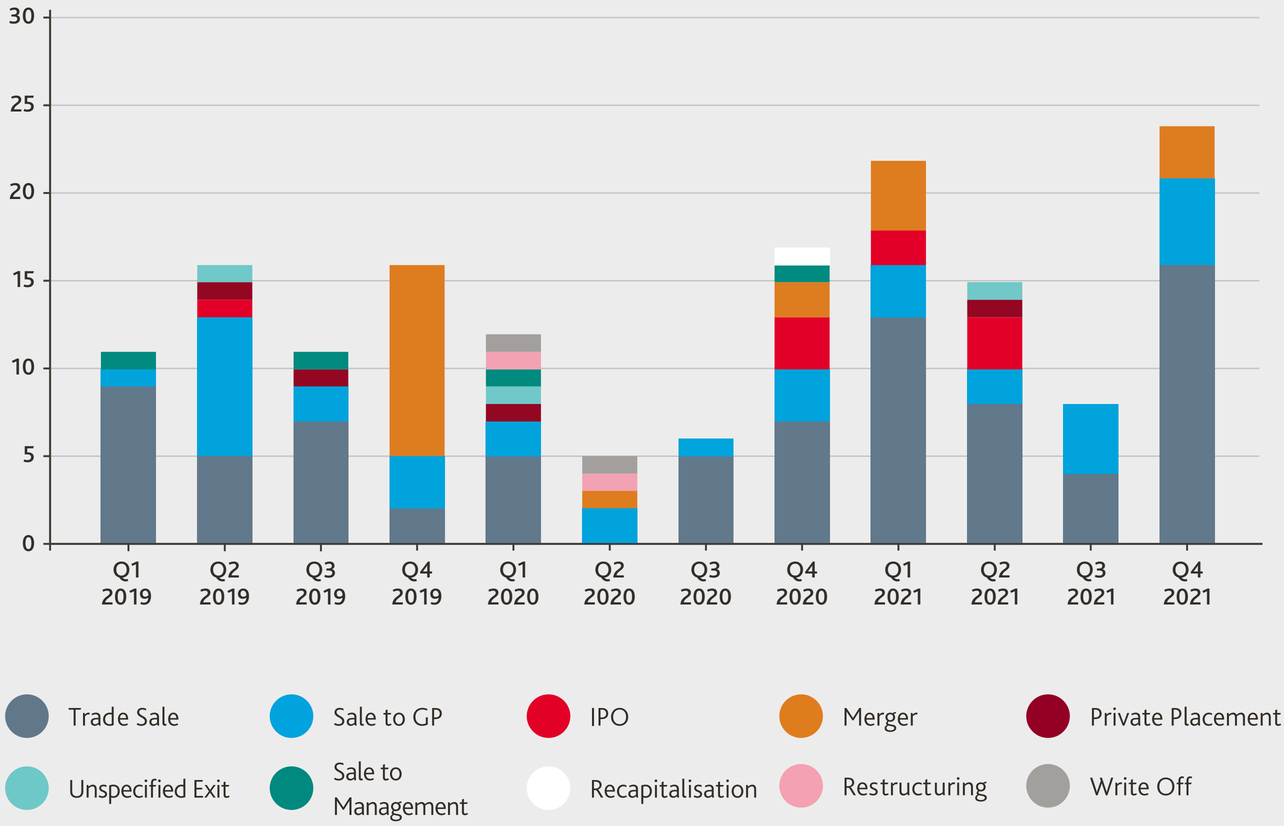
Source: Preqin, BDO analysis

Market dynamics previously discussed benefited investors, fundraisers, buyers and sellers alike. PE firms took advantage of heightened valuations and improved market confidence to increase average exit value substantially from USD 52m in 2019 to USD 295m in 2021. This boom in exit values corresponded to greater buyout exit volumes with 69 exits in 2021 compared to 54 in 2019 and 40 in 2020.

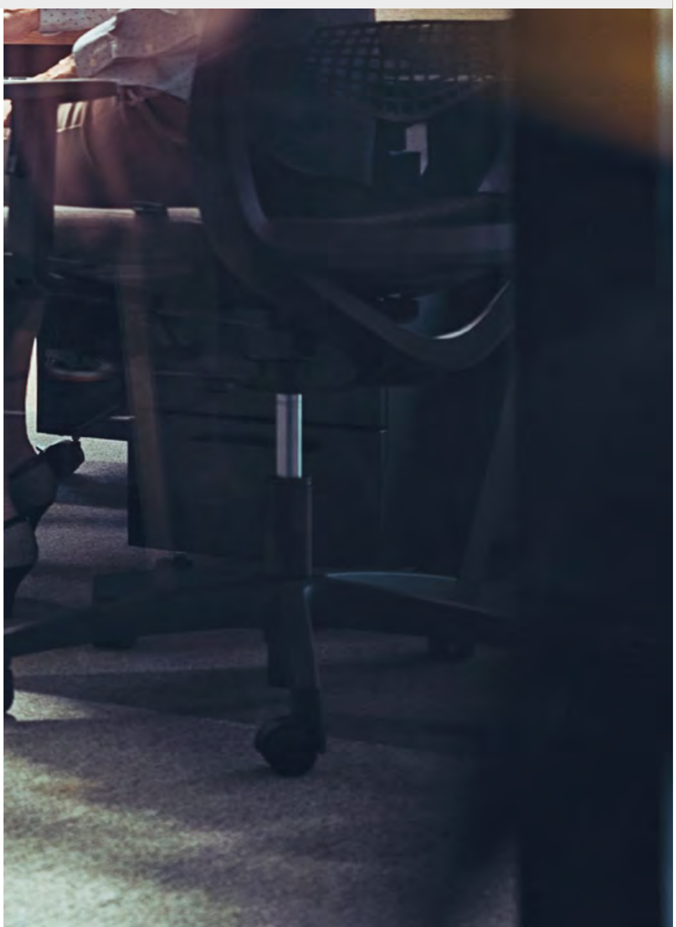
Trade sales and mergers with strategic buyers, and sales to GPs remain the most common exit options, collectively representing c.90% of 2021 exits. Exits via initial public offering (**IPO**) have gained popularity over the last 3 years, from 1 IPO exit in 2019 to 5 in 2021. Notable IPO exits in 2021 include:

- KKR's Latitude Financial Group listing in Apr-21 (ASX:LFS). Latitude's listing sees KKR successfully exit after 2 previous attempts to list during the firm's 6-year holding period. Upon listing, Latitude raised AUD 150m at AUD 2.60 a share for an AUD 2.6bn market capitalisation.
- Crescent Capital Partners' exit from Australia's 3rd largest pathology service provider, Australian Clinical Labs (ASX:ACL) in May-21. ACL listed with an initial market capitalisation of AUD 809m, and raised over AUD 400m. At the time, this made ACL the largest capital raising via an ASX IPO for 2021.

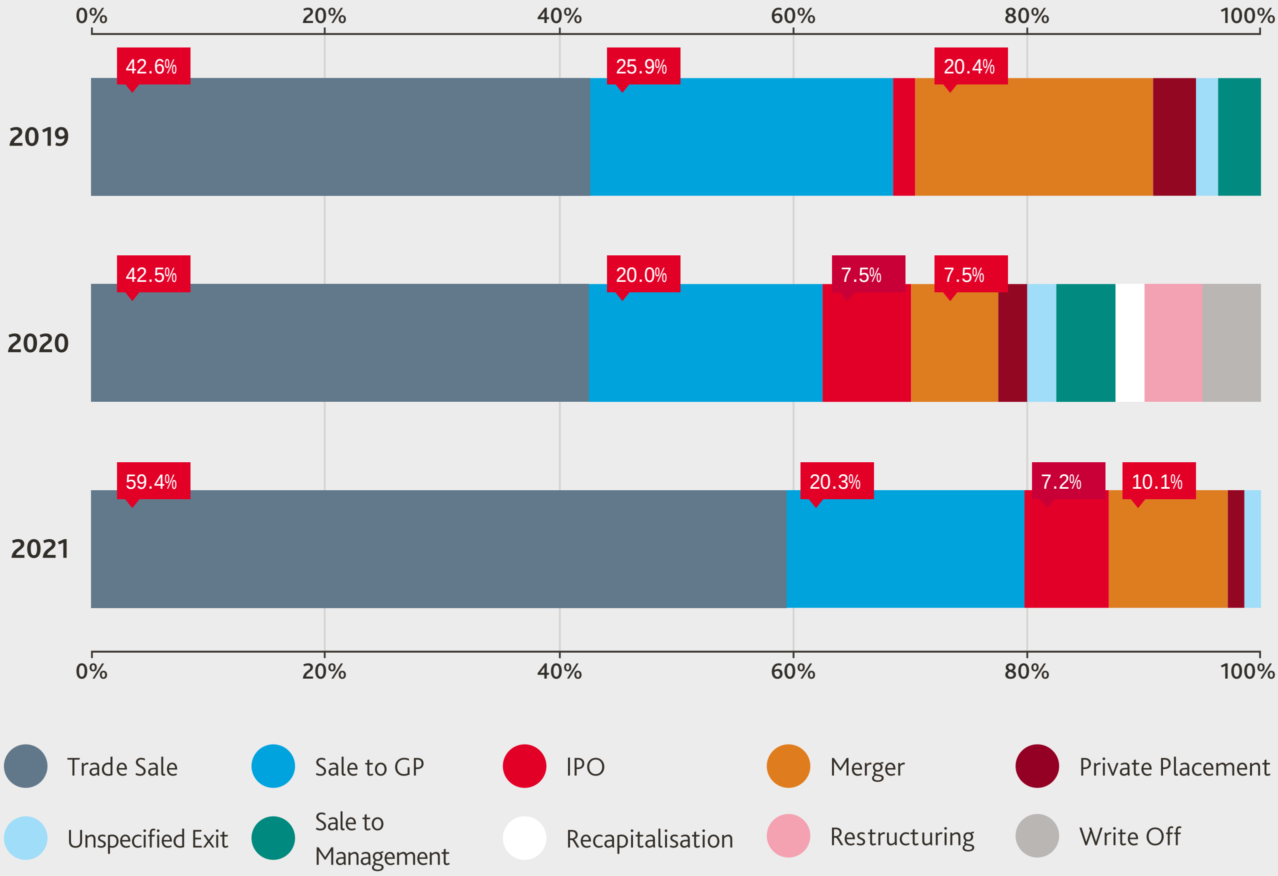
BUYOUT EXITS – QUARTERLY VOLUME



Source: Preqin, BDO analysis



BUYOUT EXITS – ANNUAL MIX

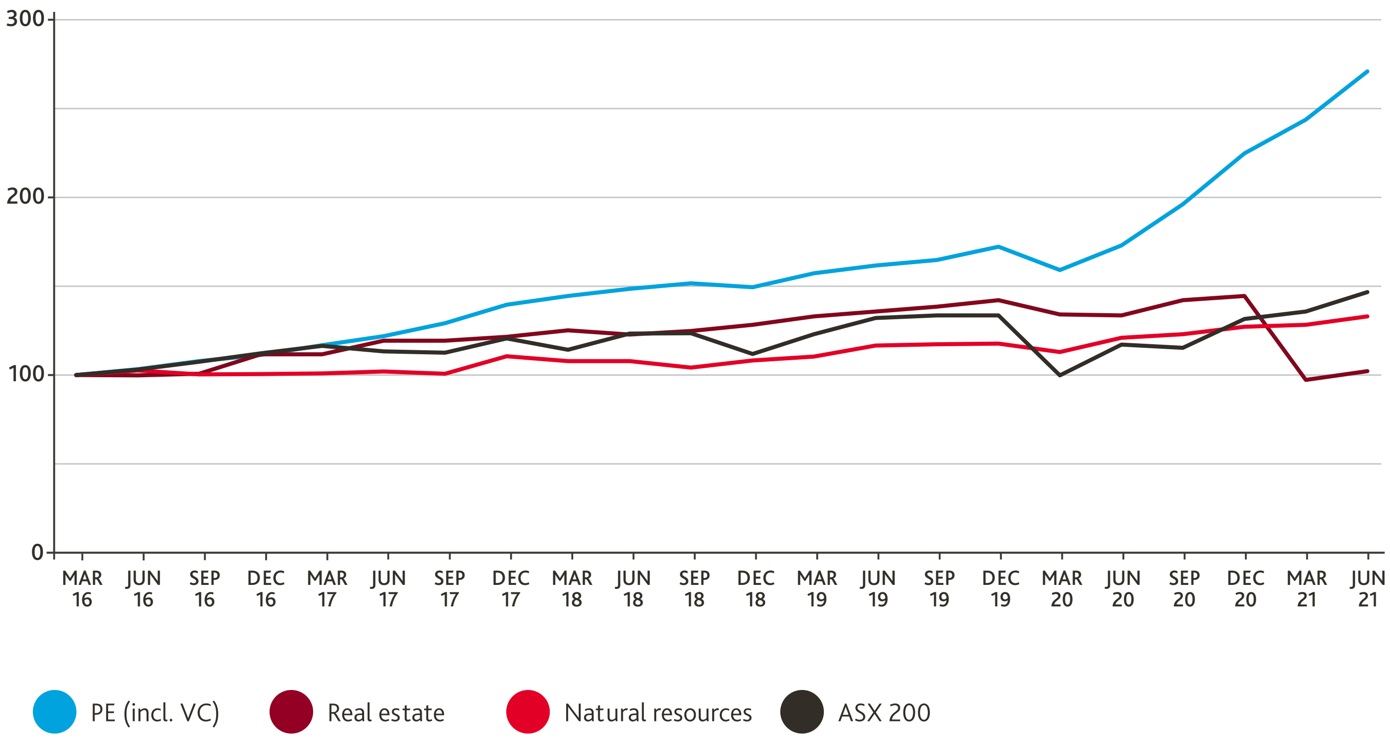


Source: Preqin, BDO analysis

The PE market also benefited from increased leverage in the low interest environment, translating to higher exit multiples and greater returns. PE outperformed the majority of other asset classes within Australasia, with returns spiking following the initial outbreak of COVID-19 in the Mar-20 quarter. Since the Mar-16 quarter, PE has outperformed the ASX by 119 basis points, achieving 164% returns compared to 45% returns for the ASX 200.

We attribute the outperformance of PE relative to the ASX to the higher allocation and focus on the TMT sector within PE portfolios. Despite ASX tech companies having grown at c.60% over the last year, the TMT sector represents only c.7% of the ASX 200, which is more heavily weighted towards financial services and resources. This compares to the PE market, which sees a quarter of annual deal volumes being TMT-related.

AUSTRALASIAN QUARTERLY INDEXED RETURNS: PE AND OTHER ASSET CLASSES

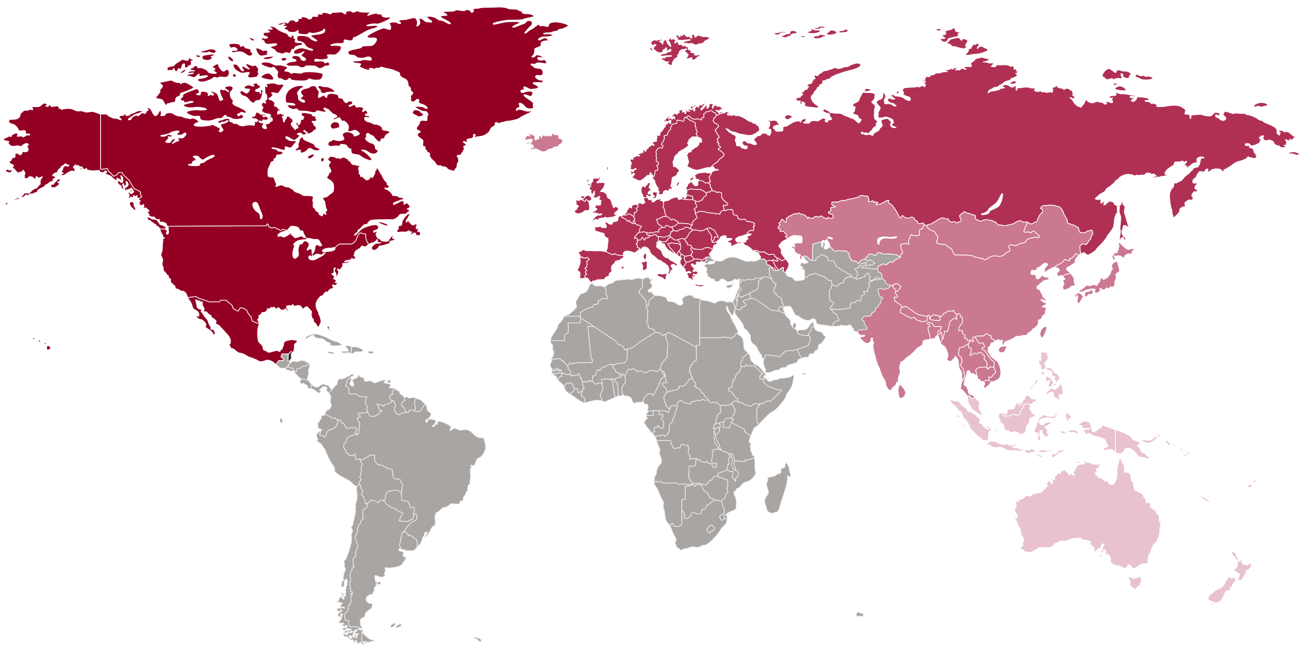


Note: Returns data is indexed and rebased from Mar-16. The figure above is limited to the latest available data from Preqin at the time of this report. The latest data available was at Jun-21

Source: Preqin, S&P Capital IQ, BDO analysis

2 | GLOBAL PRIVATE EQUITY LANDSCAPE

PE DEAL VOLUME AND VALUE BY KEY REGIONS



NORTH AMERICA	2020	2021	%
Volume (#)	3416	4946	45%
Value (USD bn)	256.2	478.5	87%

EUROPE	2020	2021	%
Volume (#)	2098	2677	28%
Value (USD bn)	126.1	217.5	72%

ASIA	2020	2021	%
Volume (#)	556	660	19%
Value (USD bn)	80.6	94.0	17%

AUSTRALASIA	2020	2021	%
Volume (#)	113	167	48%
Value (USD bn)	10.8	15.7	45%

Note: The heatmap above shows the 4 'hottest' regions by PE deal value/value, and excludes Africa, Latin America & Caribbean, and the Middle East

Source: Preqin, BDO analysis

The rebound in the Australasian PE was accentuated in the global PE landscape. Deal volumes globally rose by c.37% from 6,345 in 2020 to 8,676 in 2021, equating to a c.71% increase in total deal value from USD 482bn in 2020 to USD 823bn in 2021. The majority of PE deals in 2021 occurred within North America, Europe, Asia and Australasia (collectively representing >95% of total deal volume and deal value).

SCOTT HENDON, NORTH AMERICA

International Liaison Partner and Global and National Leader of Private Equity BDO USA, LLP

Private Equity deal value in North America has increased from USD 256bn in 2020 to USD 479bn in 2021, what do you attribute the increased Private Equity deal volume in 2021 to?

Last year was a perfect environment for deal activity. The US experienced strong and sustained economic activity and growth. We saw strong financing markets, easy availability of loans and very low interest rates. A growing economy makes investment easier and targets more attractive. Plus, high valuations made it an appealing time to sell.

In the US there was also the threat of a capital gains rate increase. While that hasn't come to fruition, it put pressure on funds to get deals done before the end of the year. Some sellers took advantage of inflated earnings to sell on a higher earnings base as well.

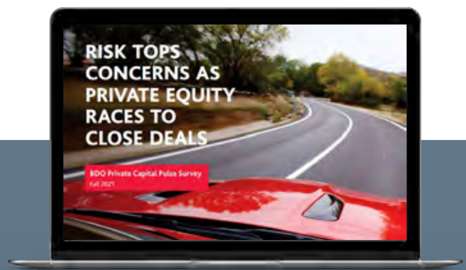
2020 on the other hand was a year of relatively low activity, which presented an opportunity for funds to focus on fundraising. As a result, 2021 released a lot of that pent-up demand, with a record amount of dry powder available.

Are there any potential challenges for Private Equity deal activity in Europe over the short to medium term?

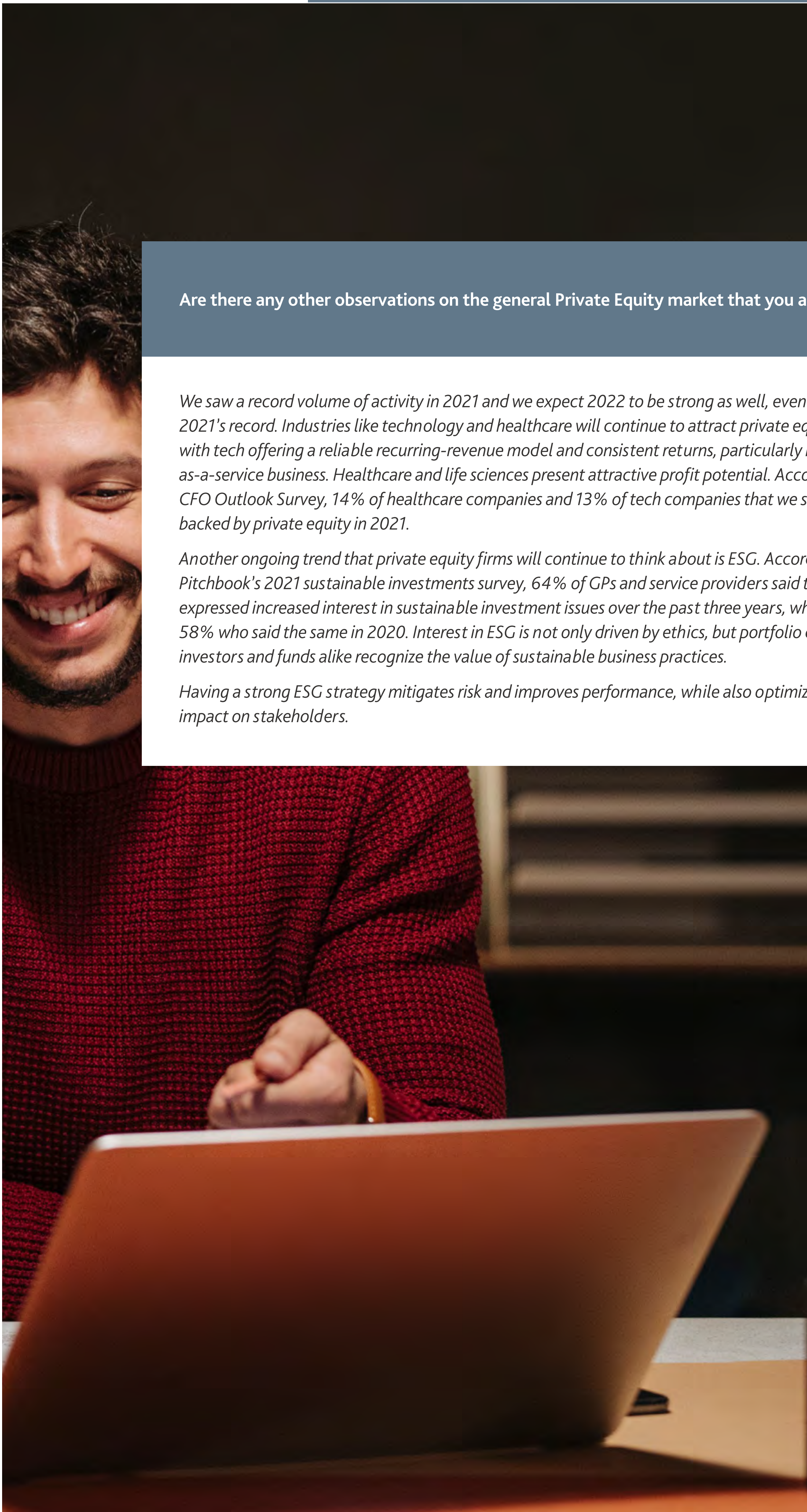
For over 10 years, private equity has been able to rely on low interest rates, which has helped to fuel borrowing and buying. However, we now expect the US Federal Reserve to raise interest rates several times in 2022. While modest rate hikes could serve to control inflation, any larger or unprecedented rate hikes would create more uncertainty and affect valuations. That could cause some sellers to pause on putting their businesses up for sale. It would also make debt-financed deals more expensive.

Not to be overlooked are significant ongoing global supply chain issues, which are, of course, contributing to inflation. According to our 2022 CFO Outlook survey, 48% of CFOs at private equity-backed companies say supply chain disruption poses significant risk to their business, and according to our Fall 2021 Private Capital Pulse Survey, 43% of fund managers say they are identifying and implementing supply chain efficiencies for their portfolio companies in order to generate value from their investments. So, supply chain is an issue that funds will need to help portfolio companies work through.

Here in the US we still do not have certainty around what tax changes may be coming. The latest draft of Biden's Build Back Better Act (H.R. 5376) did not include an extension of the holding period requirement for long-term capital gain treatment or provisions to tax carried interest allocations as ordinary income, above $400,000. That being said, Build Back Better now looks unlikely to pass as a tax and spend package, but might be split up into smaller bills. Sen. Joe Manchin, whose vote will be critical to any bill, said he would be open to raising the top capital-gains rate to 28% from 23.8% and increasing taxes on private-equity managers' carried-interest income.



FALL 2021 PRIVATE CAPITAL PULSE SURVEY
CLICK TO DOWNLOAD



Are there any other observations on the general Private Equity market that you are able to share?

We saw a record volume of activity in 2021 and we expect 2022 to be strong as well, even if it doesn't break 2021's record. Industries like technology and healthcare will continue to attract private equity investment, with tech offering a reliable recurring-revenue model and consistent returns, particularly in the software-as-a-service business. Healthcare and life sciences present attractive profit potential. According to our 2022 CFO Outlook Survey, 14% of healthcare companies and 13% of tech companies that we surveyed were backed by private equity in 2021.

Another ongoing trend that private equity firms will continue to think about is ESG. According to Pitchbook's 2021 sustainable investments survey, 64% of GPs and service providers said that LPs had expressed increased interest in sustainable investment issues over the past three years, which is up from 58% who said the same in 2020. Interest in ESG is not only driven by ethics, but portfolio companies, investors and funds alike recognize the value of sustainable business practices.

Having a strong ESG strategy mitigates risk and improves performance, while also optimizing positive impact on stakeholders.

JAMIE AUSTIN, EUROPE
Head of Private Equity BDO , LLP

Private Equity deal value in Europe has increased from USD 126bn in 2020 to USD 218bn in 2021, what do you attribute the increased Private Equity deal volume in 2021 to?

Three things come to mind: firstly, the onward march of PE as a valuable asset class providing superior risk-weighted returns; secondly, familiarity: PE is becoming more familiar to entrepreneurs in Europe as a good way to fund growth or change; and thirdly, the sheer weight of money both in PE funds and in debt funds probably as a result of QE from reinflating the global economy following the GFC and then again to stave off problems emanating from covid.

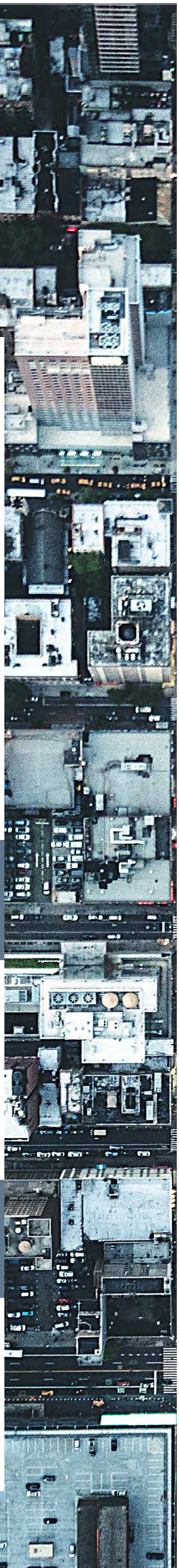
Are there any potential challenges for Private Equity deal activity in Europe over the short to medium term?

In the short-term inflation and the knock-on interest rate rises should definitely be a worry. In spite of this, many commentators are shrugging it off as interest rates are so low even a significant rise would still leave them as low by historical standards. However, the cost of debt will impact some portfolio companies, meaning investors will get distracted, and there might be a correction to the very high market pricing that has been experienced over the last 18-24 months. This will create a hiatus in deal completions as sellers get used to the correction. Geopolitical tensions might have a similar impact on deal volumes and pricing.

Are there any other observations on the general Private Equity market that you are able to share?

We expect PE to become more and more global as the years pass. This trend will not just be preserve of the mega-funds (which are pretty much all global now) but also mid-market and lower mid-market activity. We doubt it will happen all at a rush, more likely we will look back at some stage and realise that even lower mid-market PE is global. Similarly, we will see more and more sector specialisation especially in tech, life sciences and other sectors that are themselves international or where knowledge and experience are key to good investing.

3 | OUTLOOK FOR 2022



The current state of Australasian PE looks promising. With USD 12.4bn in dry powder committed for Australasian investment, 2022 is primed to support deal activity. Further, there is pent-up demand from founders for succession plan exits via PE given previous uncertainty and difficulties faced due to COVID-19. PE firms will undoubtedly capitalise on these factors, and in our opinion, sectors to remain hot and attract large amounts of investment include TMT and Pharma, Medical & Biotech.

However, it is important to step back and assess the macroeconomic environment in which capital markets transact. Upward pressure on inflation is of particular interest to keep an eye on, as central banks are likely to increase cash rates as a countermeasure. These inflationary challenges and rising interest rates will likely lead to higher cost of capital for many buyers, resulting in depressed company valuations and heightened volatility for public markets in particular.

The macroeconomic environment emphasises the importance of buyers, sellers and PE firms having an M&A strategy in 2022, including engaging advisers to conduct financial, tax and operational due diligence well in advance of receiving offers, developing an understanding of any potential underlying company risks, and ensuring overall exit readiness. Buyer and seller deal appetite is expected to continue in 2022 however, this pre-deal preparation will be key in aligning expectations to get deals over the line.

PE returns are likely to normalise in the short- to medium-term, after a brief stint of super returns. That said, we expect PE firms to continue with their strong deal flow in 2022 and outperform other asset classes.

Has Advent found a change in perception to Private Equity over the course of the pandemic as a succession plan exit route for SME founders?

The pandemic has certainly elevated the benefits of partnering with private equity with and that this partnership is more than just capital. For example, Advent was able to create an environment for our investee companies to collaborate and share best practice and solutions through-out various stages of the pandemic. Our founders also valued the ability to workshop various COVID responses with someone outside the executive function and bring objective perspectives to the decision making process.

BRAD LYNCH, PARTNER – ADVENT PARTNERS

Does Advent see any challenges to SME founder succession planning exits over the short to medium term?

Today we are seeing founders consider partnership earlier in the life cycle of their business, than perhaps previous generations of founders. We see this as a great opportunity to be relevant for a growing market of businesses that are seeking to solve problems that have global application. However, as always has been the case, founders should seek guidance from a trusted advisor and implement a professional "exit readiness" program prior to commencing an exit process or substantial sell down to PE.

BRAD LYNCH, PARTNER – ADVENT PARTNERS

4 | BDO PRIVATE EQUITY SERVICES

HOW WE HELP

BDO's Private Equity Practice supports private investors such as private equity and pension funds, sponsors, and other private investment entities and their portfolio companies with a full spectrum of professional services:

- Pre-transaction
- During the transaction process
- Post-transaction.

BDO tailors services to meet the specific needs of clients, ensuring they get the support they need in their key business activities.

FUND SERVICES

- Formation & tax structuring
- Audit, tax and other compliance services
- Accounting support and consultation
- Personal and estate tax planning
- Compensation and benefit planning for management team
- Valuation services

TRANSACTION ADVISORY SERVICES

- Investment strategy
- Opportunity introduction
- Integrated acquisition due diligence including financial, tax, technology, human resources, integrity and risk
- Tax structuring for acquisition and post-acquisition integration
- Purchase agreement support
- Post-transaction services including closing balance sheet validation
- Integration planning and execution
- Valuation and business modelling
- Purchase price allocation

PORTFOLIO MANAGEMENT & COMPLIANCE

- Annual & ad-hoc audit & assurance services
- Tax compliance, planning and specialised tax consulting
- Operational improvement
- Compensation & benefits
- Restructuring services & crisis management
- Fraud prevention & investigative services
- Insurance claim support
- Expert witness services
- Valuation and business modelling
- Purchase price allocation
- Impairment reviews
- Cyber & digital strategy
- Change management
- Risk management

EXIT SERVICES

- Initial Public Offering support
- Structuring for tax efficient strategies for LPs & management
- Sell-side M&A advisory services
- Sell-side due diligence
- Valuation & business modelling

4.1 | BDO'S PE-RELATED TRANSACTIONS

KKR

Due diligence for KKR's portfolio company, ERM in its acquisition of Point Advisory.

ALCEON GROUP

Due diligence for Alceon's PE investment in SMS Healthcare

GRESHAM CAPITAL PARTNERS

Due diligence for Gresham Capital Partners' acquisition of Advanced Cosmeceuticals.

NOMURA RESEARCH INSTITUTE

Financial and tax due diligence, and SPA completion mechanism drafting for the sale of The Growth Fund's portfolio investment in Planit Test Management Solutions Pty Ltd to Nomura Research Institute Ltd.

LIVERPOOL PARTNERS

Due diligence for Liverpool Partners' acquisition of Seven Miles.

VISTA EQUITY PARTNERS

Due diligence for Vista Equity Partners' portfolio company, Solera in its bolt-on acquisition of ENData.

ACCEL-KKR

Due diligence for Accel-KKR's investment in Uptick.

LUMOS DIAGNOSTICS

Performed the Independent Accountant and Independent Tax Advisor for Lumos Diagnostics' IPO on the ASX (ASX:LDX).

CONTROL BIONICS LIMITED

Performed the Independent Accountant, Independent Tax Advisor, and Auditor role for Control Bionics' IPO on the ASX (ASX:CBL).

LIFE360 INC.

Performed the Independent Accountant, Independent Tax Advisor, and Auditor role for Life360's IPO on the ASX (ASX:360).

REVASUM INC.

Performed the Independent Accountant, Independent Tax Advisor, and Auditor role for Revasum's IPO on the ASX (ASX:RVS).

PIVOTAL SYSTEMS CORPORATION

Performed the Independent Accountant, Independent Tax Advisor, and Auditor role for Pivotal Systems Corporation's IPO on the ASX (ASX:PVS).

SOLGEN ENERGY GROUP

M&A sell-side advisory for the sale of Solgen Energy Group to an Australian private equity firm.

1300 138 991

www.bdo.com.au

NEW SOUTH WALES
NORTHERNTERRITORY
QUEENSLAND
SOUTH AUSTRALIA
TASMANIA
VICTORIA
WESTERN AUSTRALIA

22-02-0098