Annual report on the performance of portfolio companies, XIV

14th edition

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Building a better working world

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Foreword

This is the 14th annual report on the performance of portfolio companies, a group of large, private equity ("PE") owned UK businesses that met defined criteria at the time of acquisition. Its publication is one of the steps adopted by the private equity industry following the publication of guidelines by Sir David Walker to improve transparency and disclosure, under the oversight of the Private Equity Reporting Group ("PERG").

This report addresses many questions that various stakeholders may have on the impact of private equity ownership on large UK businesses, by presenting facts and benchmarks to provide answers. The report is designed to be read stand-alone, summarising the accumulated data over the past 14 years of reporting; it also contains comparisons to last year's results and, for some measures, shows time series trends.

This year, the report covers 64 portfolio companies ("PCs", as defined according to criteria set by the PERG) as at the 2020 financial reporting year (2019: 61), as well as a further 107 portfolio companies that have been owned and exited since 2005. The findings are based on aggregated information provided on the portfolio companies by the PE firms that own them — covering the entire period of private equity ownership. This year, data was received covering 57 portfolio companies, a compliance rate of 89% (2019: 87%). On many measures of performance, the data on the current portfolio is combined with data from portfolio companies exited in 2020 and earlier, which provides over 100 data points, typically measuring performance over several years and a compliance rate of 93%.

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

Section 1: Objectives and fact base

Section 2: Summary findings

Section 3: Detailed findings

Section 4: Basis of findings

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

Yours faithfully

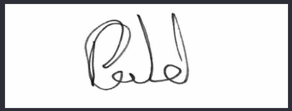
EY

It is an understatement to say that 2020 was a challenging year for the UK economy – with GDP down 9.8% YoY as a consequence of lockdowns, and while substantial Government support prevented mass unemployment it came at a significant cost – with government borrowing soaring to 15% of GDP.

Although the start of 2021 was perhaps equally downbeat, the roll out of the vaccination programme allowed for the steady removal of restrictions, which in turn saw a strong resurgence in activity through the summer. This then created its own set of issues, as supply chains struggled to keep up with demand, and labour shortages began to bite, all of which fed into inflation. Despite all this turmoil (or perhaps because of it) the M&A markets have continued to perform strongly – with 2021 looking to be a record year off a strong 2020.

It is in the above context that we should consider the results of this year's review of performance. Unsurprisingly, our analysis shows that there has been a much wider range of trading performance (revenue and EBITDA) than in previous years, both in absolute terms, and relative to public benchmarks. This has largely been driven by some significant differential performance across sectors, with Tech and healthcare performing particularly strongly, while more consumer-focused businesses struggling. Performance in respect of employee driven metrics has been generally closer to historical data, probably reflecting Government support to labour markets, but also perhaps a recognition by owners that underperformance in a particular portfolio business, may well have been driven by temporary external factors, rather than reflecting any underlying weakness in the business.

As ever, this annual report prepared by EY on the performance of portfolio companies for the BVCA provides an important insight into how private equity impacts many aspects of performance at large UK businesses. It will be very interesting to see how performance responded in 2021 and beyond as the economy emerges from the pandemic.



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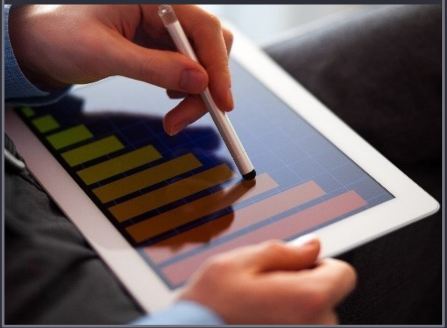

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1 Objectives and fact base

Objectives and fact base

Question	
What period does this report cover? How have any potential impacts from the pandemic been considered?	▸ **Data presented in this report reflects results of companies with part of the financial year falling in 2020 (i.e., current portfolio companies have a financial year ending between June 2020 and 30 June 2021).** ▸ **The data and analysis in this report includes periods impacted by the COVID-19 crisis.**
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.
What are the distinctive features of the PE business model?	▸ The distinctive features of the PE business model include controlling ownership of its portfolio company investments, the use of financial leverage, and its long-term investing horizon.
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 (refer to page 12).
How robust is the data set used in this report?	▸ The aggregated data in this report covers 93% of the total population of portfolio companies (including exits). This year, compliance for the current portfolio companies was 57 of 64, or 89%.
What are the time period and coverage of the measures used to evaluate performance?	▸ The two main measures used in this report cover a) the entire period of PE ownership of all the portfolio companies, i.e., from initial acquisition to latest date or exit, and b) the latest year and prior-year comparison of the current portfolio companies.
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.
How accurate are the individual portfolio company submissions?	▸ The portfolio company submissions are drawn from key figures disclosed in published, independently audited annual accounts. ▸ The data returned to EY is checked for completeness and iterated with the PE firms as required.

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) owned by PE investors that meet the criteria determined by the PERG. It forms part of the actions implemented by the PE industry to enhance transparency and disclosure, as recommended in the guidelines proposed by Sir David Walker in November 2007.
- By aggregating information on the businesses that meet a defined set of criteria at the time of their acquisition, there is no selectivity or performance bias in the resulting data set. This is the most accurate way of understanding what happens to businesses under PE ownership.
- Key questions of interest to the many stakeholders in the portfolio companies that are addressed in this report include:
  - Do portfolio companies create jobs?
  - How is employee compensation affected by PE ownership, e.g., pay and pension benefits?
  - Do portfolio companies increase or decrease investment in capital expenditure, R&D and bolt-on acquisitions or partial disposals?
  - What are the levels of financial leverage in the portfolio companies, and how do they change over time?
  - How do labour and capital productivity change under PE ownership?
  - Do companies grow during PE ownership?
  - What is the level of gender diversity in the portfolio companies?
  - How do PE investors generate returns from their investments in the portfolio companies? How much is attributable to financial engineering, public stock market movement and strategic and operational improvement?
- The findings of this report constitute a unique source of information to inform the broader business, regulatory and public debate on the impact of PE ownership, by evidencing if and how its distinctive features (including investment selection, governance, incentives and financial leverage) affect the performance of large UK businesses.
- This is the 14th report covering performance data up to a latest date of June 2021 (2020 financial year-end). It is written to be read as a stand-alone report with comparisons to prior years' findings included for reference.

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Key factors for consideration in this report

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

- We highlight the following key factors that should be considered when reading this report:
  - This report covers a period (2020) materially impacted by the social and economic effects **of the pandemic**. The specific impacts of the pandemic on individual companies (and the aggregate portfolio) cannot be robustly isolated, but we note:
    - A wide spread of trading results can be seen in 2020 across the portfolio companies (both the long-term and current PC portfolios). This is evidenced in the table below, which presents the weighted average year on year growth rate and the standard deviation of results of the current portfolio (in each year) for 2017–20. This indicates a higher standard deviation (an indication of high deviation/dispersion in growth rates across the portfolio of companies) in 2020 across the PCs for revenue and EBITDA growth in 2020 compared with 2017–19.
    - The spread of results measuring employment and employment cost per head growth, as well as capital employed, is not as significant in 2020 in comparison to the historical periods.
    - Refer to the following page, where we disclose the average growth and standard deviation measure for the key measures, as an indicator of the dispersion of performance across the portfolio.
  - As in any year of this study, there is a degree of **sectoral skew** in the portfolio companies when compared with the public benchmark.
  - The data tracks in year performance and cumulative performance over time. The cumulative performance reflects each relevant portfolio company from date of entry in the study to date of exit (but – clearly – does not track performance after exit). In certain cases, the trends in the cumulative data appears to be impacted by the materiality of the in-year movement (e.g., employment) and so may be considered a cyclical rather than structural factor. Readers should look at the cumulative data and the longer time series of in-year data.
  - Relative to the ONS private sector benchmark for analysis of employee compensation, there is a skew in the current portfolio towards consumer and healthcare 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.
  - This report includes annual salary band data. The data submissions for this year of the study include requests for part-time and zero-contract worker data (in part to consider how this would impact salary bands). The response rate to this part of the data submission was not sufficient to draw conclusions on the impact of part-time and zero-contract workers on the split of annual salary bands for portfolio companies. Given this data was a first year requirement, additional guidance will be provided in how companies should provide this data going forward.
  - The employee cost per head analysis may be impacted by furlough receipts factored into the employment cost reported by both the portfolio companies in their submissions and the companies included in the ONS private benchmark. As for the wider economic impacts of the COVID-19 pandemic, this can't be isolated.

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Key factors for consideration in this report (cont.)

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

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

Average vs. standard deviation, key metrics

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

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.

Limited partners (LPs)

- Commit to invest equity in fund as advised by GP, i.e., investors
- Pension funds, insurance companies, government and sovereign wealth funds, family offices and the GP itself

Equity

PE fund
Vehicle for portfolio company investments made, and later realised

Equity | Equity

Portfolio company | **Portfolio company**

Debt | Debt

Banks, lending against security of individual portfolio company

General partner (GP)

- Raises funds from LPs
- Makes all investment and divestment decisions for the fund
- Earns management fees and is entitled to a performance-related share of realised profits
- Typically controls board of portfolio companies

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

Distinctive features of the PE business model

- 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.
- Long term:
  - LPs make an investment commitment to a PE fund of c.10 years.
  - Typically, equity capital is invested for the first five years and realised in the second five years.
  - 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.

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.

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

Movements in the number of portfolio companies

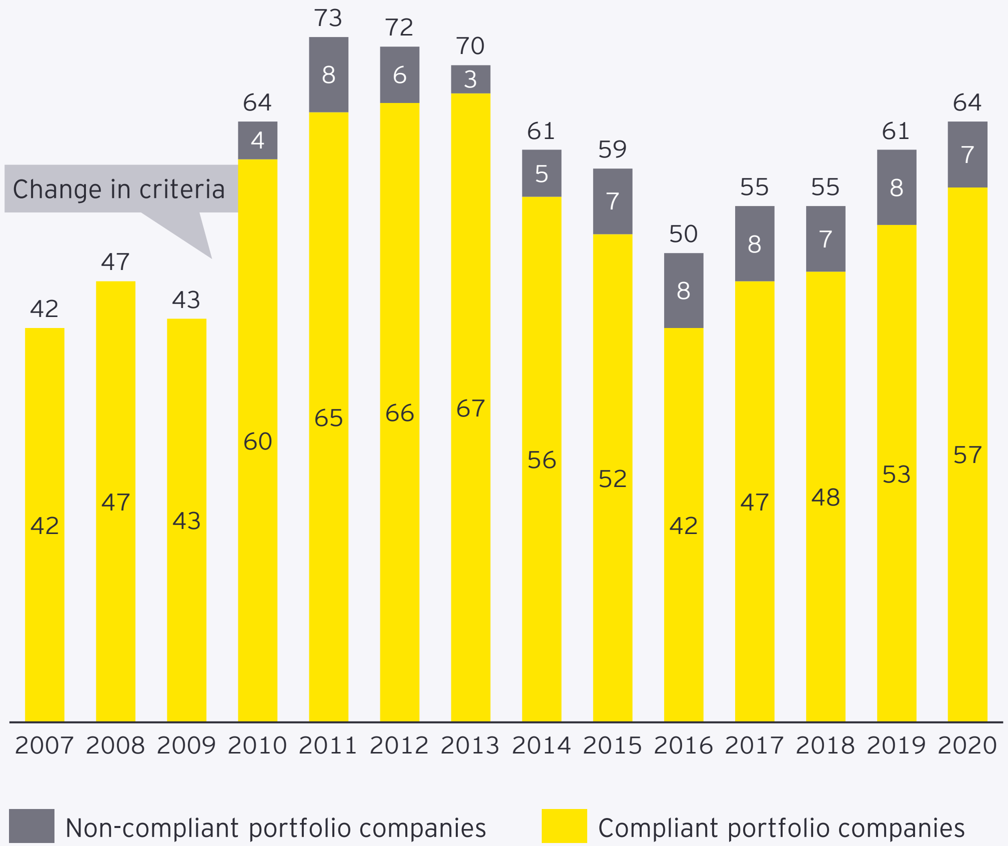
	Exits 2005-06	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
At 1 January		37	42	47	43	64	73	72	70	61	59	50	55	55	61	
Portfolio companies introduced/excluded with changes in PERG criteria		-	-	-	12	4	-	(2)	-	-	(2)	-	(1)	-	-	11
Acquisitions of portfolio companies		10	5	-	11	8	7	10	7	11	5	13	10	10	8	115
Exits of portfolio companies	(9)	(5)	-	(3)	(2)	(3)	(8)	(10)	(16)	(13)	(12)	(8)	(9)	(4)	(5)	(107)
Portfolio companies at 31 December		42	47	43	64	73	72	70	61	59	50	55	55	61	64	
Exits and re-entrants		1	-	-	1	1	3	5	-	1	3	3	1	-	2	21
Number of exits by IPO		-	-	-	-	-	1	3	8	5	2	-	-	1	1	21

- 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 16 new portfolio companies. In 2012, the PERG decided that one 'PE-like' investor entity that owned two portfolio companies had restructured in such a way that it was no longer PE-like. In 2013, the PERG decided that one portfolio company 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 one portfolio company in 2016. In 2017, one portfolio company was removed as it no longer had a UK-based ownership structure. 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 93% of the total population of portfolio companies (as defined by PERG). This year, compliance for the current portfolio companies was 57 of 64, or 89%.

Number of portfolio companies on 31 December, and compliance



- PE firms were requested to complete a data template for each of their portfolio companies, for the purposes of preparing this report. Individual portfolio company submissions were reviewed by EY and were accepted or rejected depending on their completeness. In certain analyses in this report, specific data from some PCs has been excluded from our analysis (discussed further in the Key Considerations on the following pages).
- Compliance by portfolio companies is at 89% in 2020 and has ranged between 84%–90% historically. In many measures of performance, data covers both current portfolio companies as well as those owned and exited.
- Of the group of 107 former portfolio companies (exits), 14 relate to exits in the period 2005–07 that were not required to submit the full data template. Compliance of the remaining exited portfolio companies is 87 out of 93 or 94%. Therefore on this measure of the current portfolio and exits (CP+exits), the total population is 157, and there is data reported on 144, a compliance rate of 92%.
- For returns attribution, which is only measured on exits, compliance is 95 out of 107 or 89%; of the 5 exits in 2020, 3 provided data, 2 are non-compliant. We note that the returns analysis in this report has been updated for an additional two exits in 2020; the third exit could not be analysed due to the exit structure and resultant data limitations.

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How robust is the data set used in this report?

Portfolio companies (as at 31 December 2020)

Portfolio company	GP(s)
Advanced Computer Systems	BC Partners, Vista Equity Partners
Alexander Mann Solutions	OMERS Private Equity
Ambassador Theatre Group	Providence Equity, (Exponent Private Equity)
BCA Marketplace	TDR Capital
Camelot	**Ontario Teachers' Pension Plan**
Care UK	Bridgepoint Capital
Chime Communications	Providence Equity, (WPP)
Citation Limited[1]	KKR
CityFibre	Goldman Sachs
Civica	Partners Group
Clarion Events	Blackstone
Cobham Limited[1]	Advent International
David Lloyd Leisure	TDR Capital
Domestic and General	CVC Capital Partners (Abu Dhabi Investment Authority)
Edinburgh Airport	Global Infrastructure Partners
Energia Group (Viridian Group)	I Squared Capital
Energy Assets Group Limited [1]	**Asterion Industrial Partners**
ESP Utilities	3i Infrastructure plc
esure group	Bain Capital
Farnborough Airport	Macquarie Infrastructure and Real Assets (Europe) Limited
Froneri	PAI Partners, (Nestlé)
Global Risk Partners Limited[1]	**Searchlight Capital Partners**
HC-One	Safanad, Formation Capital (Cavendish Court)
Hermes[1]	Advent International
Hyperoptic	KKR
Infinis	3i Infrastructure plc
IRIS Software Group	ICG, Hg Capital
JLA	Cinven
KCOM	Macquarie Infrastructure and Real Assets (Europe) Limited
Keepmoat	TDR Capital, (Sun Capital)
LGC[1]	Cinven, (Astorg)
London City Airport[2]	**OMERS Infrastructure, Ontario Teachers' Pension Plan (Alberta Investment Management Corporation, Wren House Infrastructure Management)**

Portfolio company	GP(s)
M Group Services	PAI Partners
Merlin Entertainments	Blackstone
Miller Homes	Bridgepoint Capital
Motor Fuel Group	Clayton, Dubilier & Rice
Moto-way	CVC Capital Partners, (USS)
MyDentist	The Carlyle Group, (Palamon Capital Partners)
NewDay	CVC Capital Partners, Cinven
PA Consulting Group	The Carlyle Group
Parkdean Resorts	Onex
Pizza Express[1]	**Bain Capital Credit, (Cyrus Capital Partners and other investors that were previously senior bondholders)**
Premium Credit	Cinven
Punch Taverns	**Patron Capital**
Pure Gym	**Leonard Green & Partners**
QA Training	CVC Capital Partners
RAC	CVC Capital Partners (GIC)
Rubix	Advent International
Shawbrook Bank	BC Partners (Pollen Street Capital)
Stonegate Pub Company	TDR Capital
Study Group International	Ardian
Sykes Holiday Cottages	Vitruvian Partners
The Kantar Group Limited	Bain Capital
Travelodge	Goldman Sachs (GoldenTree Asset Management, Avenue Capital Group)
VetPartners	BC Partners
Village Hotels	KSL Capital Partners
Viridor[1]	KKR
Voyage Care	Partners Group, (Duke Street, Tikehau Capital)
Vue Cinemas	OMERS Private Equity (Alberta Investment Management Corporation)
Westbury Street Holdings Limited	Clayton, Dubilier & Rice
Williams Lea Group	Advent International
Zellis (NGA Human Resources)	Bain Capital
Zenith	Bridgepoint Capital
ZPG	Silver Lake Capital

Portfolio companies in **bold** text are those GPs and portfolio companies that have not complied with reporting requirements for the study for 2020 financial years

Notes: [1] Company is new to population
[2] Company has complied previously

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

Exits of portfolio companies during 2020

Portfolio company	GP(s)
Calisen Plc (Calvin Capital)	KKR
Fat Face	Bridgepoint Capital
Loch Lomond	**Hillhouse Capital**
LGC	KKR
Pizza Express[2]	**Hony Capital**

Portfolio companies in **bold** text are those GPs and portfolio companies that have not complied with reporting requirements for the study for 2020 financial years

Notes: [1] Company is new to population

[2] Company has complied previously

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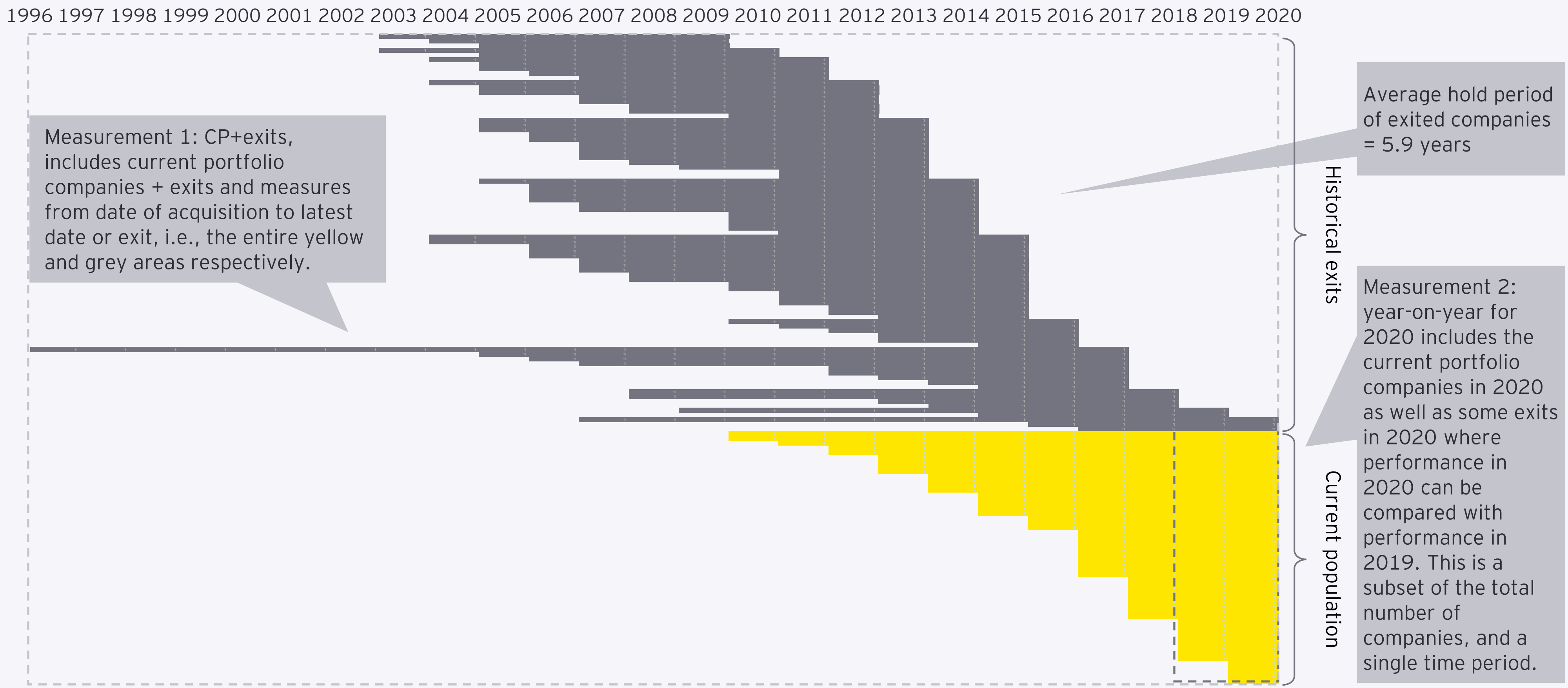
What are the time period and coverage of the measures used to evaluate performance?

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.



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

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

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

How accurate are the individual portfolio company submissions?

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

- The BVCA and EY contacted the PE firms in July 2021 and requested a standard data template to be completed for each portfolio company. For exits, the same data template was updated for the final year of PE ownership, as well as data required to complete the returns attribution analysis. Whilst it is the responsibility of the PE firm to ensure compliance, in many cases, the portfolio company submit the information directly.
- The portfolio companies have annual accounts that have been independently audited (though we note a small number of companies provided data not yet signed off by auditors, e.g., due to delay in the audit process caused by the restrictions of the COVID-19 pandemic). Completion of the data template drew on information available in company accounts and further information that was prepared from portfolio company and PE firm sources. This data enabled analysis, among other things, of the impact of acquisitions and disposals, and movements in pension liabilities and assets. The data template incorporates several in-built consistency and reconciliation checks, and also requires key figures to be reconciled to figures in the annual accounts.
- The data templates returned to EY were checked for completeness and iterated with the PE firms as required. EY undertook independent checks on a sample of the returns against published company accounts. This found no material discrepancies. Data gathering was completed in December 2021.
- The data is not adjusted for any periodic changes in accounting policies. Thus, there may be year-on-year differences caused by changes in accounting policies.

Clarifications on the data used

Benchmark data source

Refer to the *Basis of findings* section at the back of this report for further details of benchmark data sources.

Consistency with historical reporting: General

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

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

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

Consistency with historical reporting: New measures analysed this year

Data on gender diversity has been collected as part of this years analysis to assess the level of gender diversity in portfolio companies.

2 Summary findings

EY

Summary findings

It is not possible to accurately isolate the impact of the COVID-19 pandemic on the financial and operational data included in this report. It is evident, for a number of the criteria tracked in this report, that the results for 2020 exhibit a different trend to that observed in many of the other periods. We would expect the impact of the pandemic to have been the material driver of this.

Question	Key findings
How long does PE invest in the portfolio companies?	► The average timeframe of PE investment in the portfolio companies is 5.9 years (2019: 5.9 years) for historical exits, i.e., from initial acquisition to exit. The current portfolio companies have been owned for an average of 4.1 years (2019: 3.4 years).
Do PE-owned companies grow?	► The portfolio companies have increased reported revenue at 4.9% CAGR since acquisition (2019: 7.3%) and EBITDA at 4.1% CAGR (2019: 5.3%); organic revenue and EBITDA growth have increased at 1.9% and 2.3% CAGR respectively since acquisition (2019: 5.1% and 4.0%). ► Absolute revenue and EBITDA performance declined for the portfolio companies compared with 2019 because of in-year performance, including the impact of the global COVID-19 pandemic. ► The portfolio companies outperformed the public company benchmarks at a revenue increase of 4.9% versus 1.3% and EBITDA increase at 4.1% versus -2.3% per annum respectively. ► The portfolio companies reported a significant decline in organic YoY revenue and EBITDA performance in 2020 compared with a broadly consistent trend of YoY growth in prior periods (discussed further in the Detailed findings). ► There is a wide range of results in 2020 trading performance in the current portfolio companies at both a sector and company level, with much of the outperformance driven by the healthcare and technology sector outperforming other sectors in terms of profitability and consumer showing the lowest performance.
Do portfolio companies create jobs?	► Reported employment under PE ownership has increased by 0.9% per annum (2019: 2.7%). Underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) has declined by -0.8% per annum (2019: 1.5%). This cumulative result for the PCs in 2020 is significantly impacted by the in year decline in 2020 as opposed to a long-term trend of underperformance, with the in year decline impacted by certain outliers and the sector skew of the portfolio companies towards the consumer sector. ► Annual employment growth (CAGR) of the portfolio companies is below (i) the private sector benchmark of growth at -0.8% versus 0.5% growth (organic), and (ii) the public company benchmark at 0.9% versus 1.5% growth (reported). ► Organic employment growth in the portfolio companies in the last year at -5.6% was lower than both the long-term average (-0.8%) and the private sector benchmark (-1.7%). ► At the sector and company level, there is a wide range of movements in organic employment (presumably reflecting several factors, including the impact of the global COVID-19 pandemic in 2020). Healthcare significantly outperformed other sectors in terms of YoY organic employment growth for the portfolio companies.

EY

Summary findings (cont.)

Question	Key findings
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 1.8% per annum under PE ownership (2019: 2.3%), with the decrease in 2020 driven by the in-year decline in average employment cost per head. ► Average annual employee compensation growth under PE ownership is below the UK private sector benchmark, at 1.8% versus 2.9% CAGR. This is similar to the 2019 trend where average annual employee compensation growth under PE ownership at 2.3% CAGR was lower than the UK private sector benchmark at 3.0% CAGR. ► Average employment cost per head declined by -0.4% in 2020 compared with 2019, lower than the long-term trend and the UK private sector benchmark of 3.9% growth over the same period. Excluding the impact of two companies, which experienced significant decreases in average employment cost per head, portfolio companies achieved 1.0% YoY growth in 2020. This may be impacted by furlough receipts factored into the employment cost reported by both the portfolio companies in their submissions and the companies included in the ONS private benchmark. This cannot be isolated from data submissions. ► Around 38% (2019: 39%) of the jobs in the portfolio companies (which will include both part-time and full-time jobs) have annual compensation of less than £12,500. This is impacted by a high proportion of workers in the healthcare and consumer services sector (lower average compensation per employee) and may be attributed to the mix of full-time vs. part-time workers, with the healthcare and consumer sectors having 51% and 31% of the staff base on a part-time basis. We note limitations in this data point due to a low n-count of PCs for which part-time data is available. ► There have been few changes in existing company defined benefit pension schemes under PE ownership. The aggregated value of liabilities of defined benefit schemes of current portfolio companies exceeds the value of assets; the average time to pay off the deficit is estimated as 4.0 years (2019: 6.2 years).
Do portfolio companies increase or decrease investment in capital expenditure, R&D and bolt-on acquisitions or disposals?	► Investment in operating capital employed at the portfolio companies has increased by 2.6% per annum (2019: 2.0%). ► The portfolio companies have increased operating capital employed at a slightly slower rate than public company benchmarks, at 2.6% per annum versus 2.9% per annum (2019: 2.0% versus 2.3%). ► There has been growth in most measures of investment at the portfolio companies whilst under PE ownership, with all measures except Capex total spend showing an increase compared with 2019. ► The YoY increase in operating capital employed was 31.9% in 2020, significantly above the 3.2% increase in 2019. The increase in operating capital employed is 1.8% when adjusted for two large companies with significant fixed assets movements (discussed further in the Detailed findings); a ratio more comparable with the prior period. ► Of the current portfolio companies, 54% have made net bolt-on acquisitions whilst 11% have made net partial disposals, showing investment in bolt-on acquisitions ahead of partial disposals (2019: 46% and 4% respectively). ► PE investors, in aggregate, have used free cash flow and additional third-party debt to increase investment in the current portfolio companies.

EY

Summary findings (cont.)

Question	Key findings
How does labour and capital productivity change under PE ownership?	► Labour and capital productivity have increased under PE ownership, by 1.3%%, 2.4% and 10.7% per annum respectively (2019: 1.5%, 3.3% and 12.2%). ► Annual increase in labour productivity in the portfolio companies at between 1.3% and 2.4%, which is higher than the public benchmarks for EBITDA/employee (at 0.8% vs. 2.4%) but below the economy-wide benchmarks for GVA/employee (at 1.9% vs. 1.3%). This compares to broadly comparable results between the PCs and public company and economy-wide benchmarks in 2019. ► Gross value added (GVA) per employee of portfolio companies decreased YoY by 2.2% in 2020, and in line with the UK private sector benchmark of -2.2% per annum (2019: 2.9%), both results impacted by lower EBITDA performance in 2020 (and the likely impact of the global COVID-19 pandemic). ► Capital productivity increase in the portfolio companies exceeds public company benchmarks, at 10.7% versus 0.4% growth per annum (2019: 12.2% versus 1.1%).
What are the levels of financial leverage in portfolio companies?	► In aggregate, combined current plus exited portfolio companies had an average leverage ratio of 6.6 debt to EBITDA at acquisition compared with 7.0 at latest date or exit (2019: 6.7 and 6.1 respectively). ► The current portfolio companies show an increase in leverage under PE ownership principally driven by the decline in EBITDA in 2020 (and this decline is likely attributable to companies negatively impacted by the COVID-19 pandemic). ► Portfolio companies have higher levels of financial leverage than public companies: 54% of portfolio companies have a debt-to-EBITDA ratio above 5x (2019: 56%), versus 20% of publicly listed companies (2019: 19%).
What is the level of gender diversity in the portfolio companies?	► Female representation is 50% at an overall employee level across the current portfolio companies and 24% at the Director level. 33% of FTSE 250 board positions are held by females (source: Hampton-Alexander Review).

Summary findings (cont.)

Question	Key findings
How do PE investors generate returns from their investments in the portfolio companies? How much is attributable to financial engineering, public stock market movement and strategic and operational improvement?	► The equity return from portfolio company exits is 3.0x (2019: 3.2x) the public company benchmark; c.40% of the additional return is attributed to PE strategic and operational improvement, and the balance from additional financial leverage. ► Whilst the results vary over time, the components of the gross return from PE strategic and operational improvement have increased in recent years.

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

The portfolio companies outperformed the benchmark comparatives for YoY trading performance in the last financial year, however underperformed against the benchmark comparatives for growth in employment, compensation and labour productivity (measured by GVA per employee).

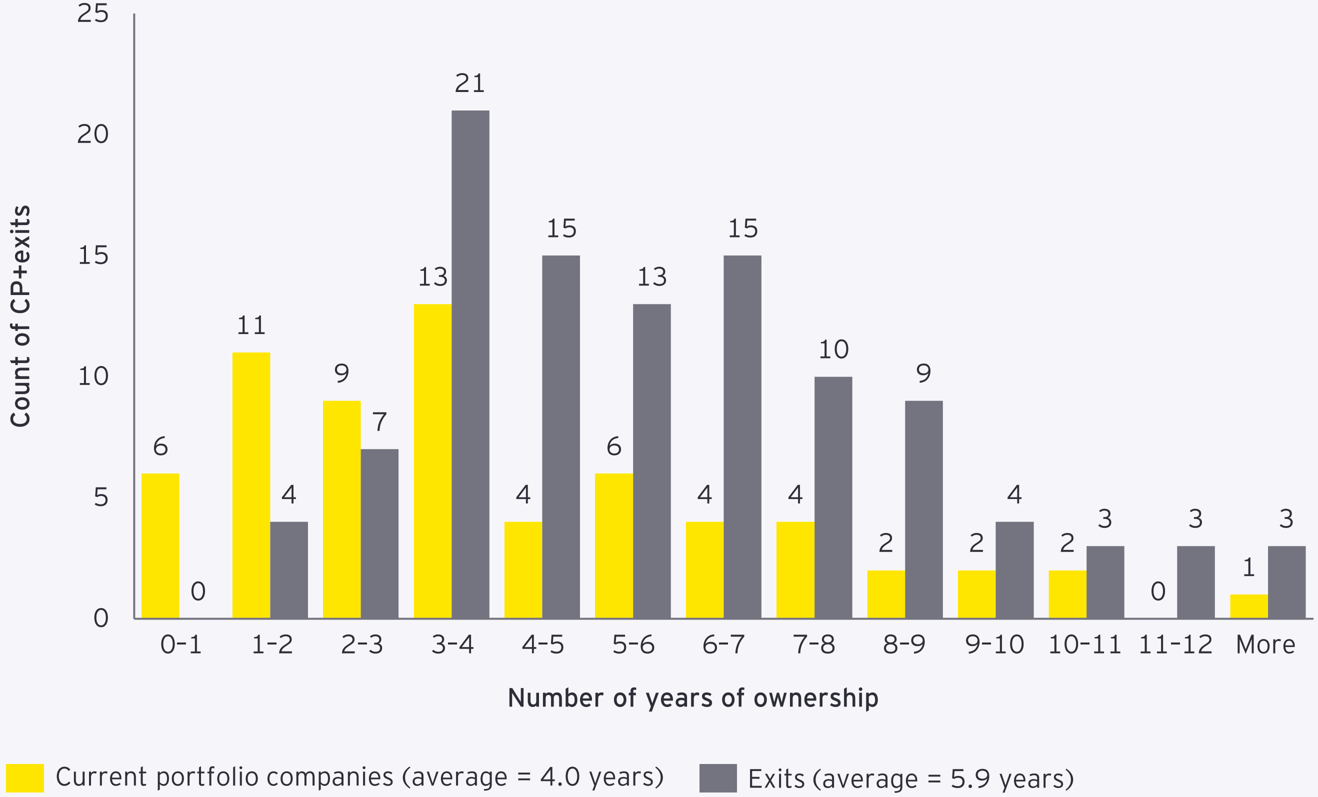
3 Detailed findings

How long does PE invest in the portfolio companies?

The average timeframe of PE investment in the portfolio companies which have exited is 5.9 years, i.e., from initial acquisition to exit. The current portfolio companies have been owned for an average of 4.1 years.

Distribution of years of ownership of portfolio companies

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

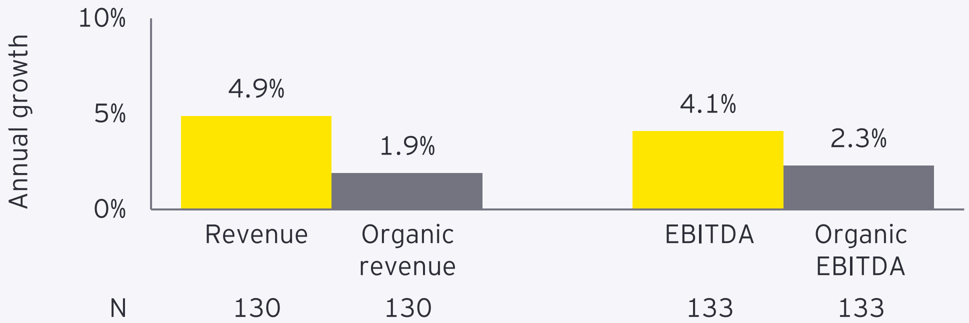


- The PE business model seeks to achieve an investment return to its investors (pension funds, insurance funds, etc.) by realising greater equity proceeds through the sale, and in dividends through ownership of portfolio companies, than its initial equity investment at the time of acquisition.
- The PE business model is long term:
  - For the 107 portfolio companies that have been exited since 2005, the average length of ownership is 5.9 years.
  - For the current group of 64 portfolio companies, the average length of PE ownership is 4.1 years at 31 December 2020.
  - For the portfolio companies exited in 2020, the average hold period was 5.8 (2019: 6.5).
- Looking at the profile of the historical exits as the best measure of the length of PE ownership, of the 107 exits, 90% were owned for more than three years, and 56% were owned for more than five years.

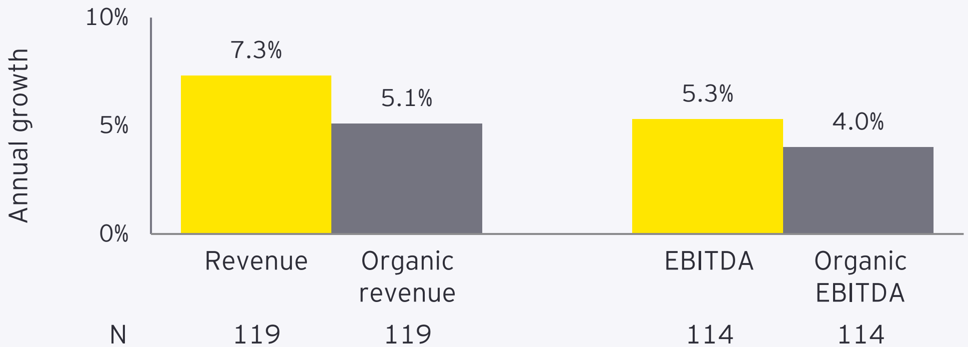
Do PE-owned companies grow?

Revenue increase in the portfolio companies was 4.9% versus 7.3% in 2019, while EBITDA increased at 4.1% versus 5.3% in 2019. The rate of revenue and EBITDA growth decreased in 2020 compared with 2019.

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



Reported and organic revenue and EBITDA growth since acquisition (CP+exits, 2019)



Refer to page 19. 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 4.9% for revenue and 4.1% for EBITDA.
- Organic revenue and profit (EBITDA) annual growth rates (excluding the effect of bolt-on acquisitions and partial disposals) are 1.9% and 2.3% respectively. As with other measures, there is variation by sector and within sectors, with the healthcare and other sectors showing the highest organic revenue growth rates. The consumer, infrastructure and technology sectors reflect broadly similar organic revenue growth since acquisition.
- The trend differs sightly at a profit level, with the healthcare and technology sectors showing the highest organic EBITDA growth rate since acquisition, whilst the remaining sectors (apart from industrials) achieved broadly similar organic EBITDA growth.
- Note: Other is largely comprised of financial sector companies.
- 2020 results are lower than 2019 levels for both revenue and organic profit (EBITDA).

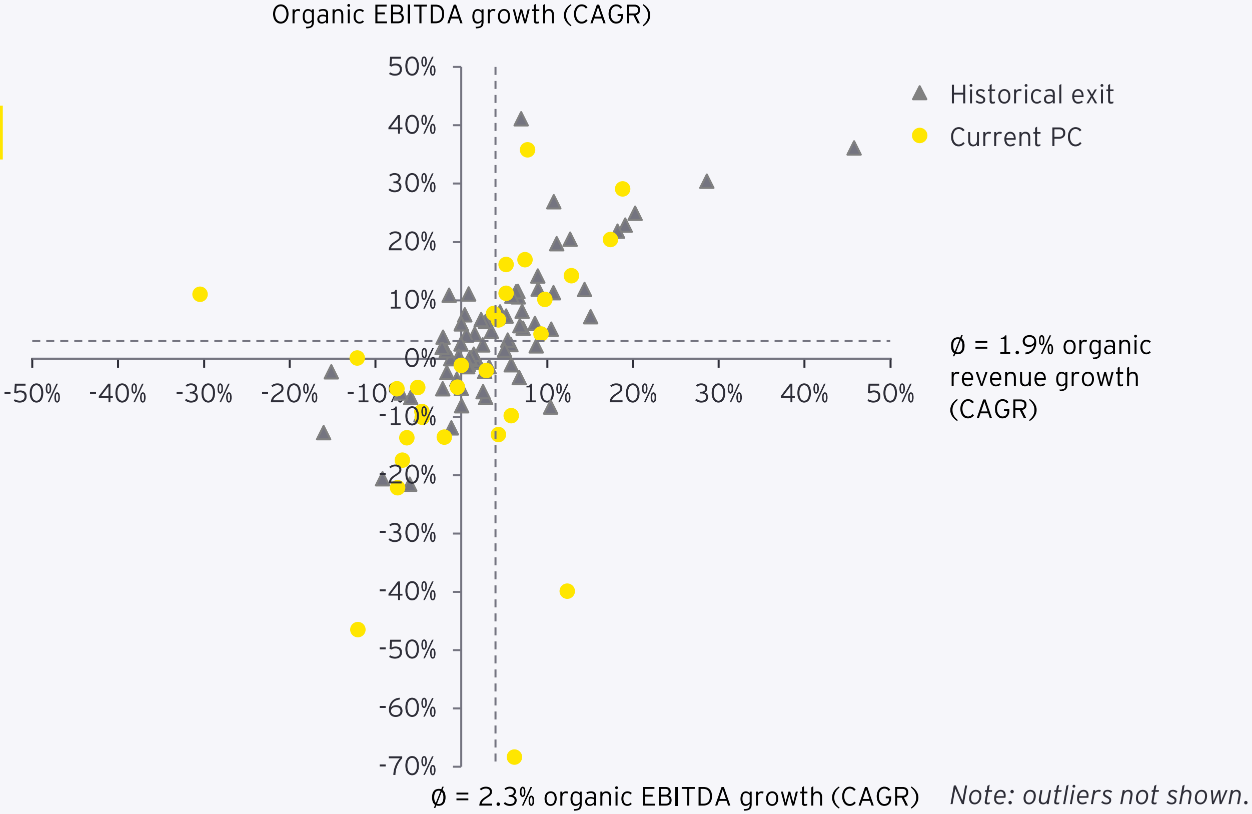
Sector	Organic revenue growth (CP+exits)	Organic EBITDA growth (CP+exits)
Industrials	-1.8%	-0.2%
Consumer	2.0%	1.9%
Healthcare	3.0%	4.5%
Infrastructure	3.8%	2.2%
Technology	4.1%	7.4%
Other	4.6%	4.0%

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.



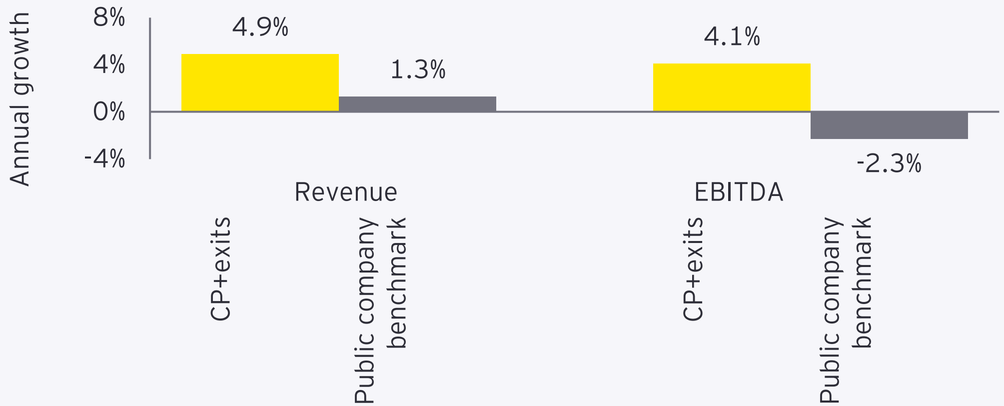
Note: outliers not shown.

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

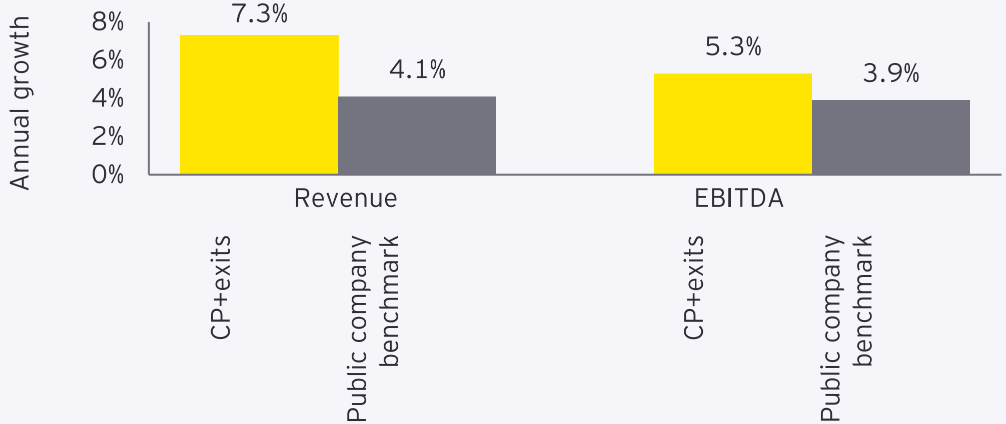
Do PE-owned companies grow? (cont.)

Revenue and EBITDA increase in the portfolio companies is comparatively at a higher rate than public company benchmarks – revenue increase of 4.9% versus 1.3% and EBITDA increase at 4.1% versus -2.3% per annum respectively.

Revenue and EBITDA growth since acquisition (2020)



Revenue and EBITDA growth since acquisition (2019)

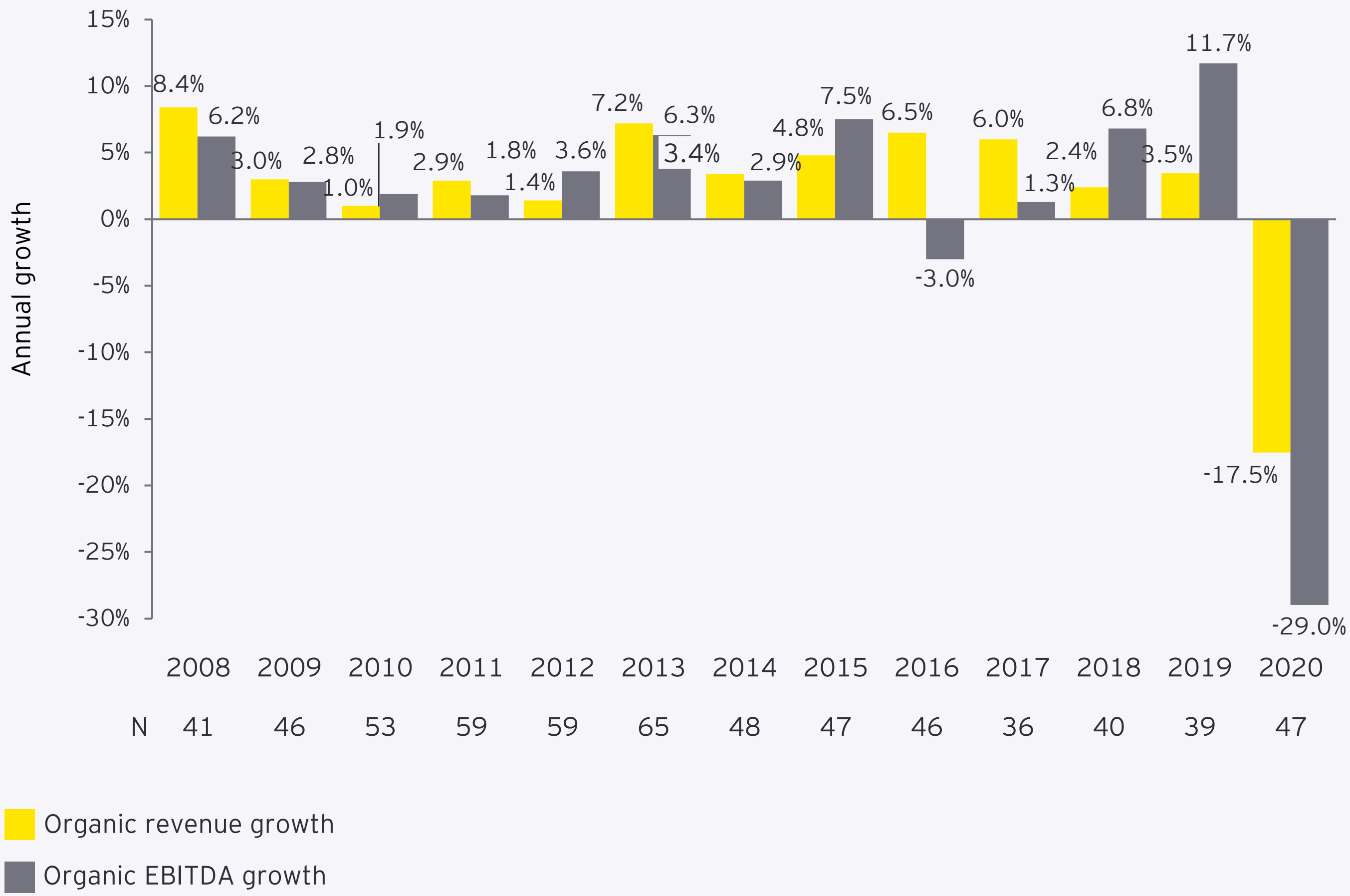


- Reported revenue and profit (EBITDA) performance of the portfolio companies since acquisition outperformed the public company benchmark, however absolute performance of the PCs declined due to in-year performance.
- In terms of drivers of revenue growth, the portfolio companies have shown more growth in capital productivity than growth in operating capital employed, including acquisitions. For public companies, the reverse is true.
- In terms of drivers of reported EBITDA growth, portfolio companies show higher growth in employment and labour productivity compared with the public company benchmark.

Do PE-owned companies grow? (cont.)

The portfolio companies reported a decline in organic profit in 2020 versus prior years. We expect this is primarily driven by the impact of the global COVID-19 pandemic on businesses.

Year-on-year organic revenue and EBITDA growth

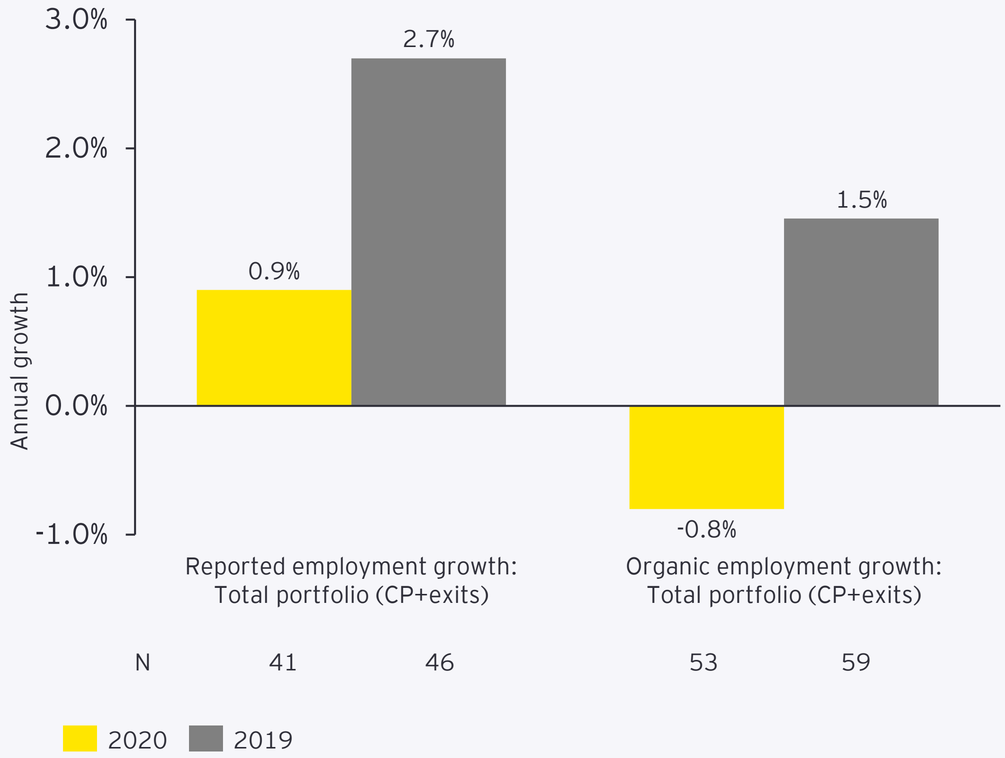


- 2020 reflects a decline in organic profit for the current portfolio companies with -17.5% revenue and -29.0% profit decline.
- The year-on-year decline in organic revenue and EBITDA in 2020 differs to a sustained period of year-on-year growth for PCs in the historical period (apart form 2016), and is primarily driven by the impact of the global COVID-19 pandemic on businesses.
- In 2020, there is a wide range of performance in year-on-year organic revenue and EBITDA growth at both a sector and PC level, with healthcare and technology being the only sectors to achieve organic revenue and EBITDA growth in 2020 (i.e., all remaining sectors experienced a decline in organic revenue and EBITDA).
- Reported revenue and EBITDA growth for PCs outperformed the public benchmark at a total level and across all sectors, with the exception of reported revenue for industrials and healthcare (healthcare was impacted by divestments).

Do portfolio companies create jobs?

Reported employment under PE ownership has increased by 0.9% per annum, whilst underlying organic employment growth (removing the effects of bolt-on acquisitions and partial disposals) has declined by -0.8% per annum.

Reported employment growth and organic employment growth



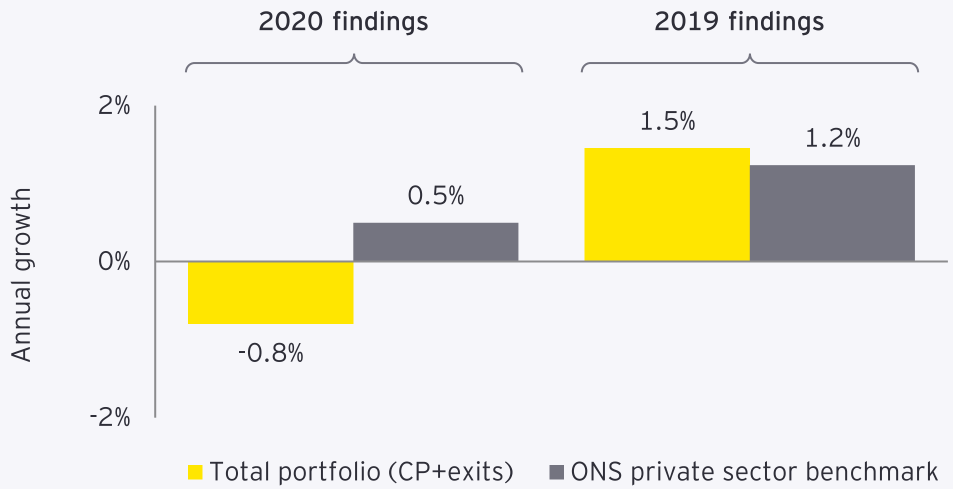
- Reported and organic employment growth of 0.9% and -0.8% reflects the cumulative CAGR of the portfolio companies from acquisition to the date of exit or latest year-end (i.e., latest year-end for current PCs will be 2020).
- The reduction in cumulative growth in 2020 compared with 2019 is driven by the 2020 in year decline in employment, which is impacted by certain outliers and the sector skew of the portfolio companies towards the consumer sector.
- As shown on page 32, this organic employment growth rate (-0.8%) appears to be a cyclical point (influenced by in year results and sector shape) as opposed to a structural point (noting that in year organic growth rates for the portfolio companies have been positive in all except 3 of the last 12 years of this study).
- Additionally, private data has been obtained from each portfolio company to isolate the effect of bolt-on acquisitions and partial disposals that may distort reported employment trends. The underlying annual organic employment growth rate is -0.8% per annum.
- We note that there are large movements at an individual PC level.
- Organic employment growth differs across sectors, with technology reflecting the highest long-term growth and all other sectors (with the exception of industrials) achieving broadly flat organic growth since acquisition. Industrials and consumer experienced a decline in organic growth since acquisition.

Sector	Reported employment growth	Organic employment growth
Industrials	-2.7%	-1.7%
Consumer	1.2%	-1.0%
Healthcare	1.0%	0.0%
Infrastructure	2.0%	0.6%
Technology	9.2%	1.5%
Other	2.4%	-0.3%

Do portfolio companies create jobs? (cont.)

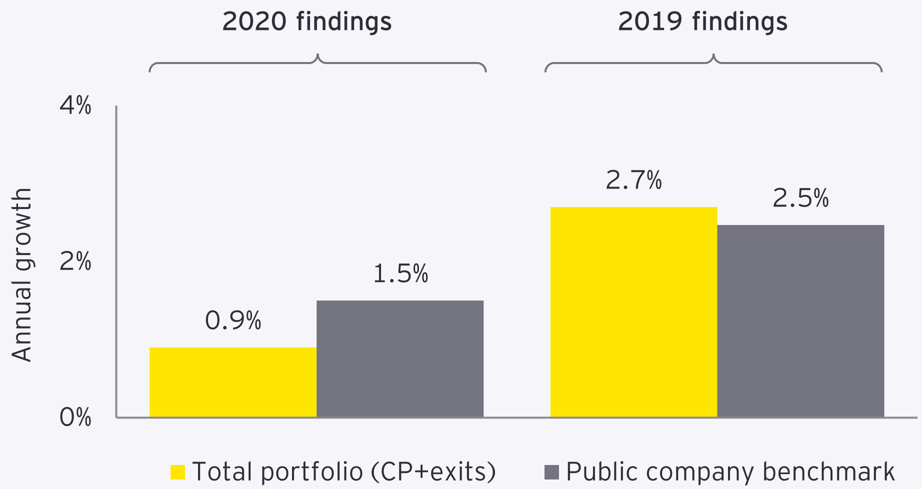
Annual employment growth at the portfolio companies is below the private sector benchmark of -0.8% (organic) and below the public company benchmark of 1.5% (reported), where this cumulative CAGR for the PCs is significantly impacted by 2020 as opposed to a long-term trend of underperformance.

Organic employment growth versus UK private sector benchmarks



- Organic employment growth can be benchmarked to ONS statistics which report on economy-wide employment trends for the UK private sector. Matching to compare relevant time periods, the -0.8% average annual organic employment growth rate of PE-owned companies is below the UK private sector employment growth as a whole.
- This cumulative result for the PCs in 2020 is significantly impacted by the in year decline in 2020 as opposed to a long-term trend of underperformance compared with the benchmark, with the in year decline impacted by certain outliers and the sector skew of the portfolio companies towards the consumer sector.

Reported employment growth versus public company benchmark

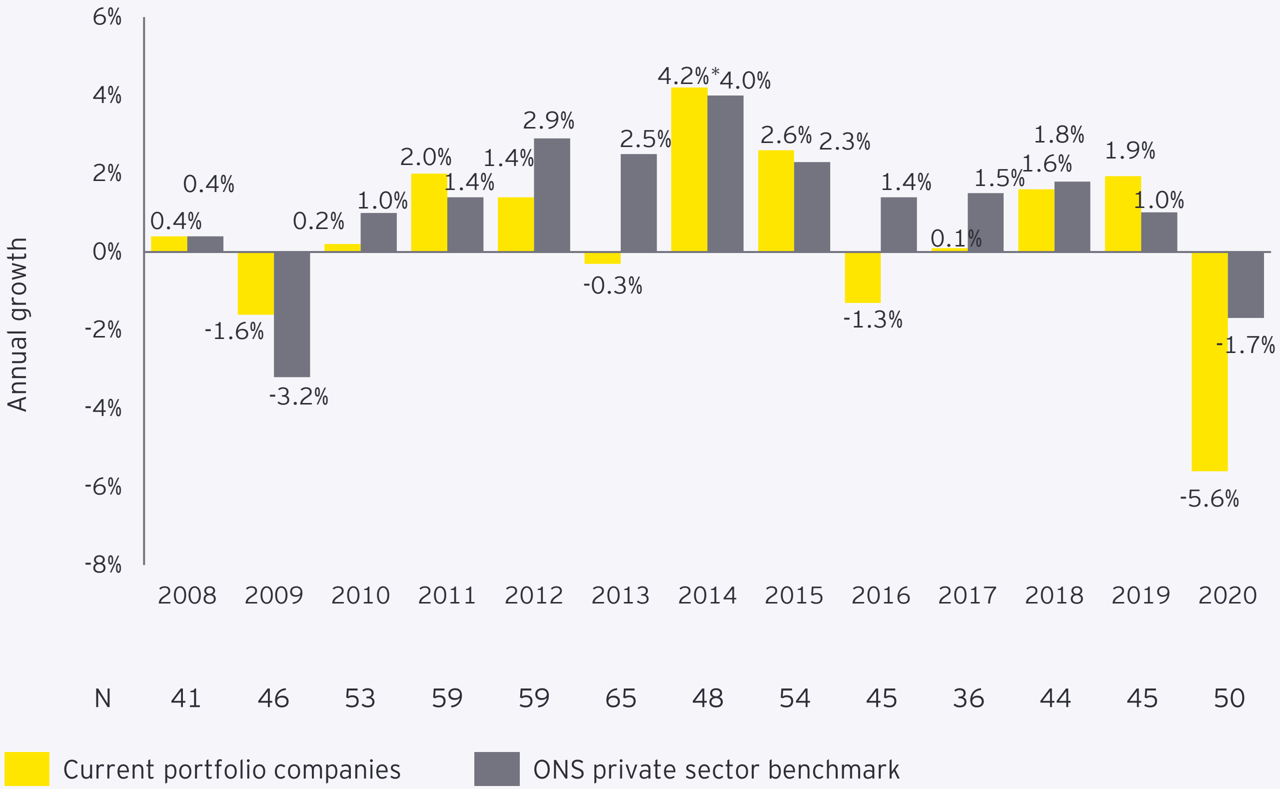


- Reported employment growth figures, as disclosed in annual reports by the portfolio companies and public companies, can also be compared. These figures include the effects of bolt-on acquisitions and partial disposals.
- The reported employment growth of the portfolio companies of 0.9% per annum is lower than the public company benchmark of 1.5% per annum, showing an inverse from 2019 comparative.

Do portfolio companies create jobs? (cont.)

Year-on-year organic employment growth in the portfolio companies is below the private sector benchmark.

Organic employment growth, year on year versus UK private sector benchmark



- Looking at the year-on-year trend in organic employment growth, 2020 saw a decline in organic employment for the first time since 2016.
- The ONS private sector benchmark is above the portfolio companies in 2020.
- The low organic growth in 2017 compared with 2018 is partly explained by outliers, where one or two results can affect the portfolio company figures. In 2017, whilst not shown separately, a large healthcare employer experienced a substantial reduction in jobs.

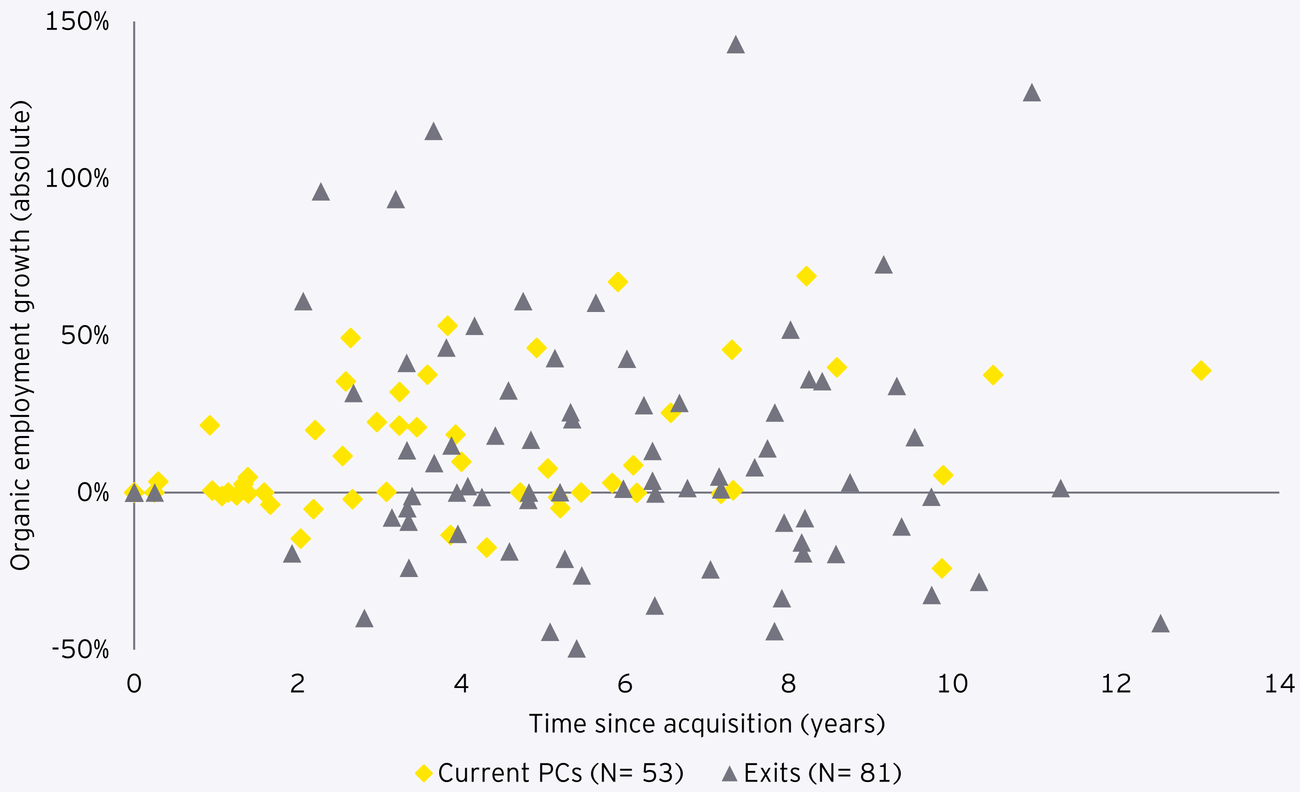
Sector	YoY organic employment growth (Current PCs)
Industrials	-4.0%
Consumer	-9.5%
Healthcare	2.2%
Infrastructure	-3.2%
Technology	4.3%
Other	1.2%

EY

Do portfolio companies create jobs? (cont.)

At a company level, there is a wide range of growth and decline in organic employment — reflecting many factors. The overall PE effect is best measured by the aggregate result.

Organic employment growth by portfolio company over time



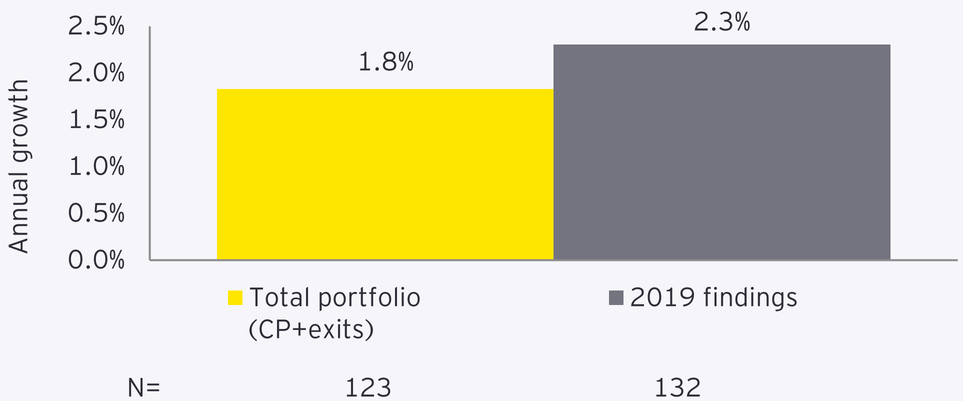
- At the individual portfolio company level, there is a wide range of outcomes in organic employment growth. This range of individual portfolio company outcomes reflects many factors, including market conditions, expansion or reduction in capacity and focus on growth or productivity.
- The chart shows the total change in organic employment (growth or decline) under PE ownership, measured against length of ownership – with a wide dispersion of results.
- The aggregated effect (considered a more valid way to assess for any systematic effect of PE ownership on the performance of the portfolio companies) is net growth in organic employment.
- Average growth in organic employment for all portfolio companies (CP+exits) is 0.4% for 2020 (1.5% in 2019), with the in-year 2020 decline reducing cumulative growth compared with 2019.

1.Absolute employment growth is measured as change in employment from the time of investment to exit or latest date, divided by employment at time of investment.

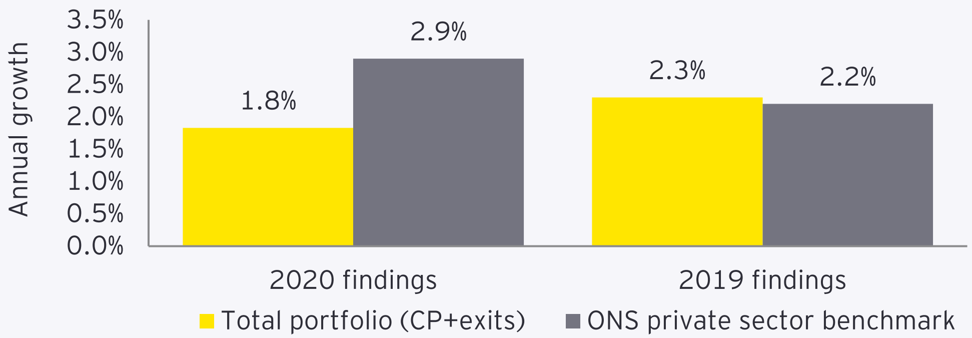
How is employee compensation affected by PE ownership?

Average employment cost per head in the portfolio companies has increased by 1.8% per annum under PE ownership, which is below the UK private sector benchmark of 2.9% and below the 2019 findings.

Growth in average employment cost per head



Growth in employment cost per head



- This report uses average employment cost per head as a measure of employee compensation. It is noted that this metric will not equate precisely to like-for-like change in employee compensation, due to changes in the composition of companies, numbers of employees at differing pay levels and terms, changes in taxes, working hours, bonus schemes, overtime rates and annual base pay awards.
- The average employment cost per head has increased by 1.9% per annum under the entire period of PE ownership, below the 2019 findings.
- It is noted that the 2019 growth in employment cost per head for portfolio companies and the ONS private sector benchmark is lower than the findings published in last year's report due to a change in the basis of the calculation, however there is no change to the trend presented (i.e., slightly higher growth in average employment cost per head in 2019 compared with the ONS private sector benchmark).
- The average annual employment cost per head increase of 1.8% in the PE-owned portfolio companies is lower than (i) the 2019 findings and (ii) the ONS private sector benchmark of 2.9% over comparable time periods.

Sector	Growth in average employment cost (since acquisition)
Industrials	2.3%
Consumer	1.6%
Healthcare	3.1%
Infrastructure	2.5%
Technology	3.2%
Other	3.1%

EY

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

Year-on-year growth in average employment cost per head was -0.4% in 2020, slightly above the long-term trend and higher than the UK private sector benchmark of 3.9% over the same period.

Year on year average employment cost per head growth

*2014 denotes year-on-year growth excluding two outliers

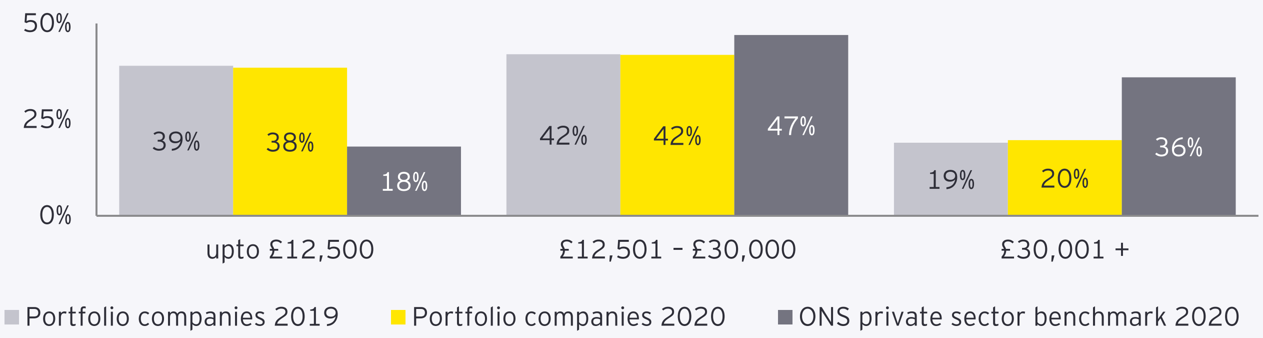
- The year-on-year growth in average employment cost per head for the PCs has exhibited some year on year variability, particularly when compared with the overall stable pattern of average compensation increases in the UK private sector overall since 2009.
- Part of the variability in the portfolio company data is due to changes taking place at one or more portfolio companies in a year that influence the overall result. There is also a wide range of results across the sectors in 2020 for the PCs, with industrials most severely impacted and all sectors except Infrastructure reflecting a negative result.
- In 2020, average employment cost per head in the PCs decreased by -0.4%, below the ONS benchmark of 3.9%. This was impacted by outliers in the consumer sector, excluding which results in a 1.0% growth in 2020. This may be impacted by furlough receipts factored into the employment cost reported by both the portfolio companies in their submissions and the companies included in the ONS private benchmark.

Sector	2019/20 growth in average employment cost per head
Industrials	-6.5%
Consumer	-1.2%
Healthcare	-1.1%
Infrastructure	4.9%
Technology	-2.4%
Other	-1.0%

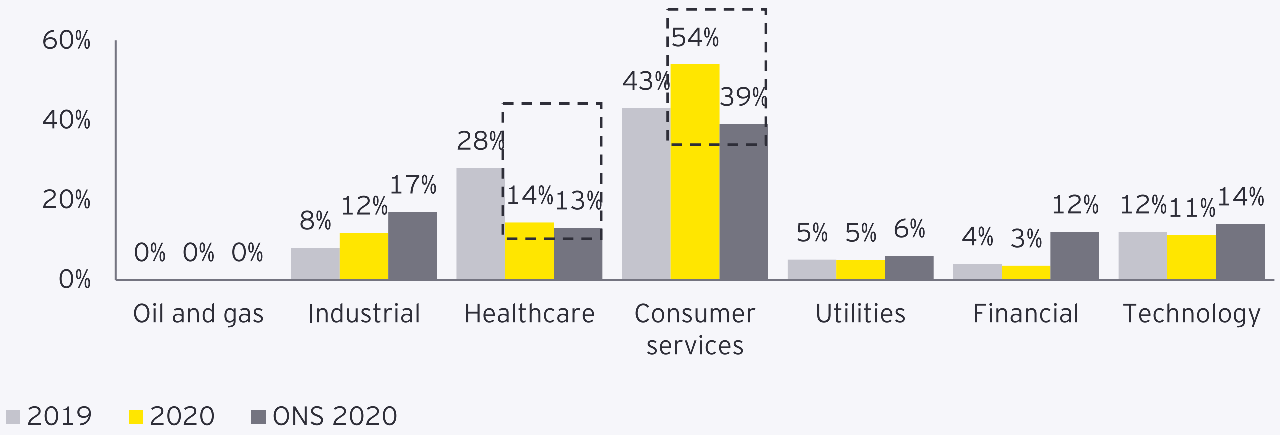
How is employee compensation affected by PE ownership? (cont.)

Around 38% 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 healthcare and consumer services sectors.

Percentage of portfolio company UK jobs by annual compensation band



Percentage of portfolio company UK jobs by sector

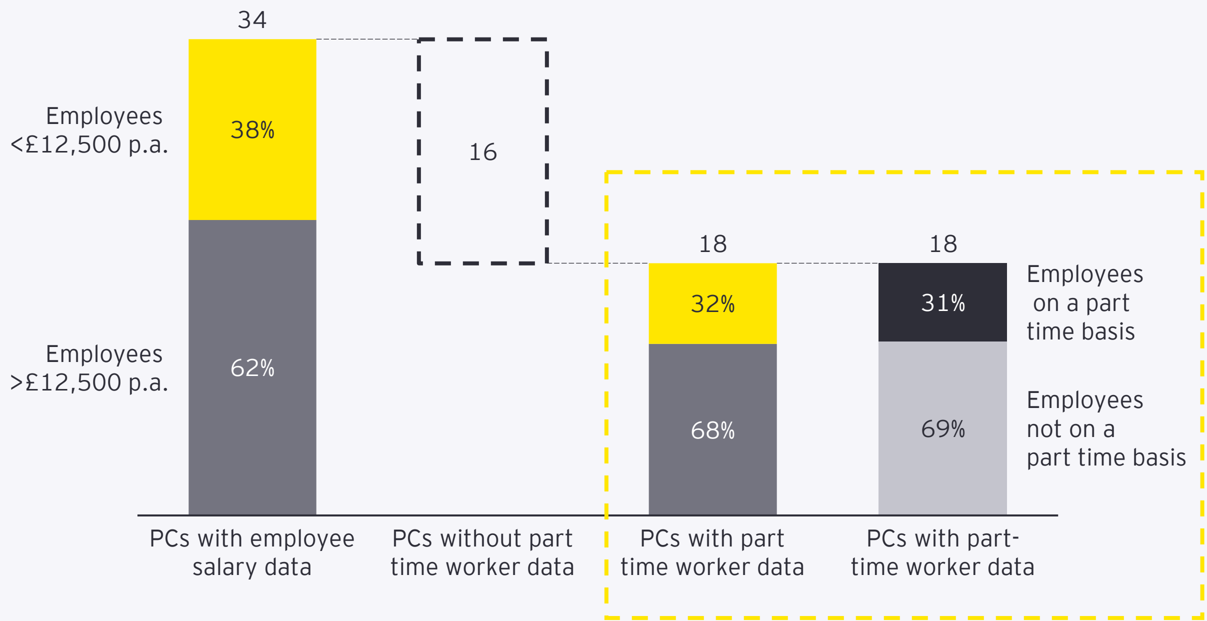


- Data on employment by annual compensation has been required from the portfolio companies since 2014, to understand employment trends and practices further.
- The portfolio companies have a high portion of jobs earning less than £12,500 per annum (38%), in relation to the UK private sector as a whole where 18% of jobs are in this compensation range.
- Part of the higher portion in the lower compensation range among portfolio companies may be influenced by sector mix, with the portfolio companies over-represented in healthcare and consumer services and under-represented in the other sectors. 68% of jobs in the portfolio companies are in healthcare and consumer services, versus 52% in the UK private sector, with healthcare and consumer sectors having a lower average cost per head compared with the other sectors.
- Another factor driving the lower annual compensation range among portfolio companies may be attributed to the mix of full-time vs. part-time and zero-contract workers. See the following page for further details.

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

Around 32% of the jobs in the portfolio companies which have provided part-time data (18 PCs) have an annual compensation of less than £12,500. 31% of employees in these PCs are employed on a part-time basis.

Percentage of portfolio company UK jobs by annual compensation band

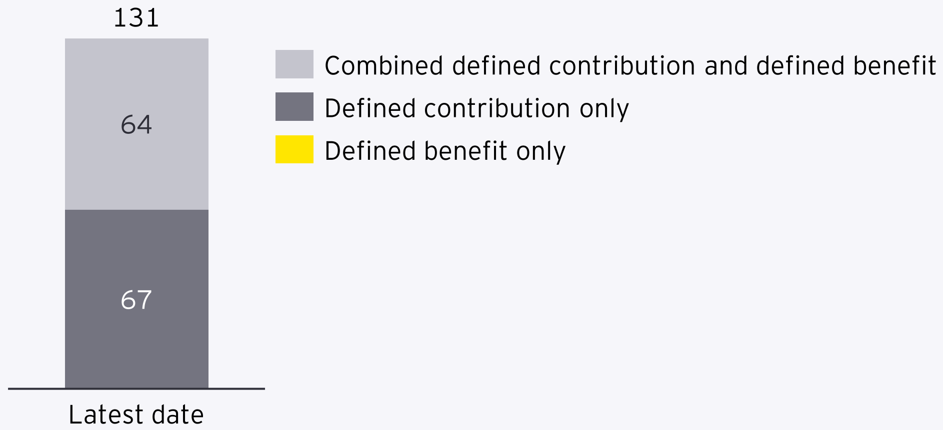


- Part-time worker data is a first year data requirement for this year of the study.
- For the portfolio companies that have provided both annual salary band data and part-time worker data (18 companies), 32% of jobs have an annual compensation of less than £12,500. This compares to 31% of employees (for the same cohort) being employed on a part-time basis.
- This would suggest that part-time workers may be a factor driving the lower annual compensation range among portfolio companies.
- We note limitations in this data point due to a low n-count of PCs (18 out of 58) for which annual salary band and part-time worker data is available.
- Given part-time worker data is a first year requirement this year, this will be further embedded in future reports as compliance rates increase in subsequent years.

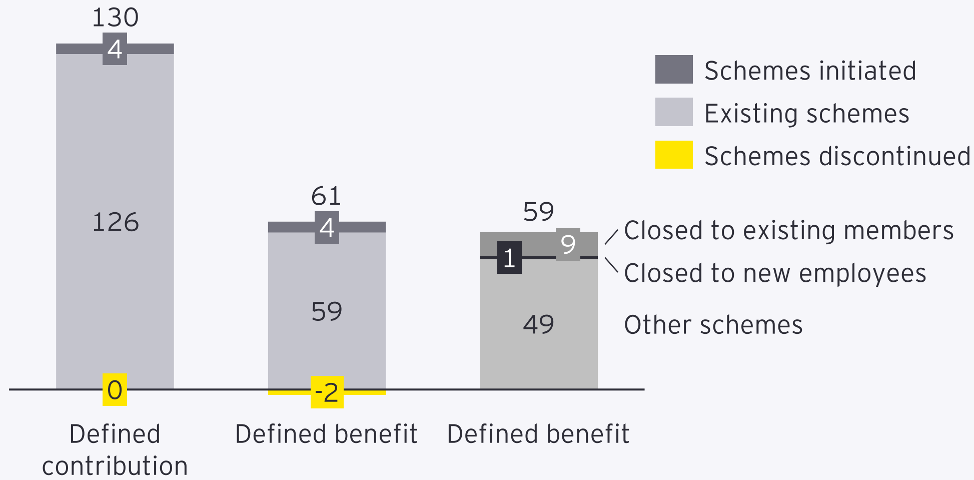
How is employee compensation affected by PE ownership?

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

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



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

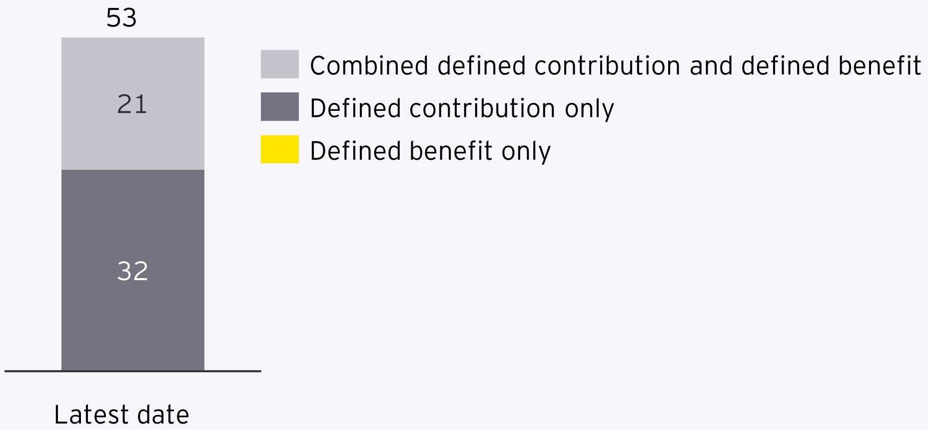


- Of the 138 portfolio companies that have provided pension information, 131 reported that they offer pension schemes to their employees (67 offer defined contribution (DC) schemes only, 64 offer a combination of defined benefit (DB) and DC schemes, and none offers DB schemes only). Two historical exits reported that they did not provide any pension scheme to their employees.
- The Pensions Regulator is responsible for reviewing pension arrangements including at the time of change in ownership. Of the 64 companies including both DC and DB, 59 companies had a DB scheme in place prior to acquisition, of which 10 sought approval from the regulator at the time of their investment.
- Under PE ownership, there have been changes to portfolio company pension schemes:
  - At four portfolio companies, new DC schemes have been initiated. In the case of two portfolio companies, this was in part because there was only a DB scheme at the time of acquisition and in the case of two portfolio, there was no pension scheme at the time of acquisition.
  - At four portfolio companies, new DB schemes have been initiated, and two schemes have been closed.
  - Also, nine DB schemes were closed to accruals for existing members and one for new members.
- In 2020, there were minimal changes to pension schemes under PE ownership; no portfolio company initiated a DB scheme and no existing DB schemes closed.

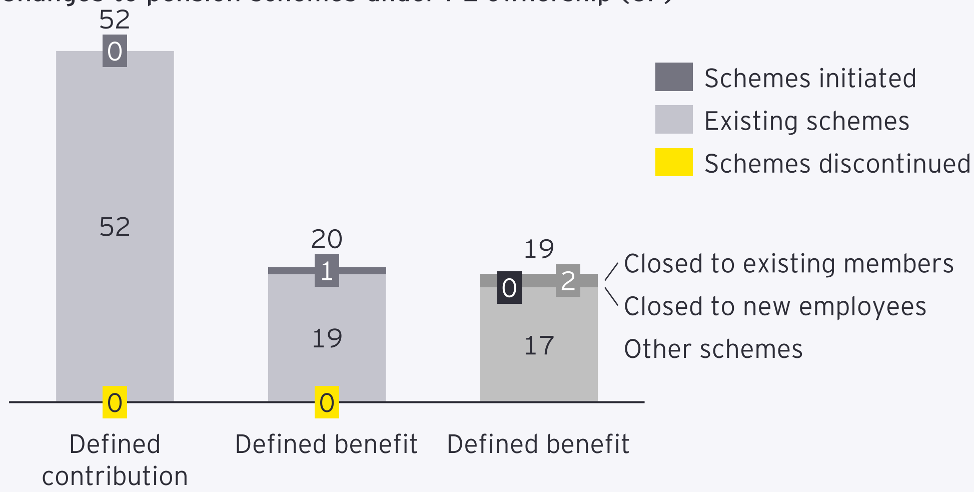
How is employee compensation affected by PE ownership? (cont.)

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

Distribution of companies by type of pension schemes (CP)



Changes to pension schemes under PE ownership (CP)

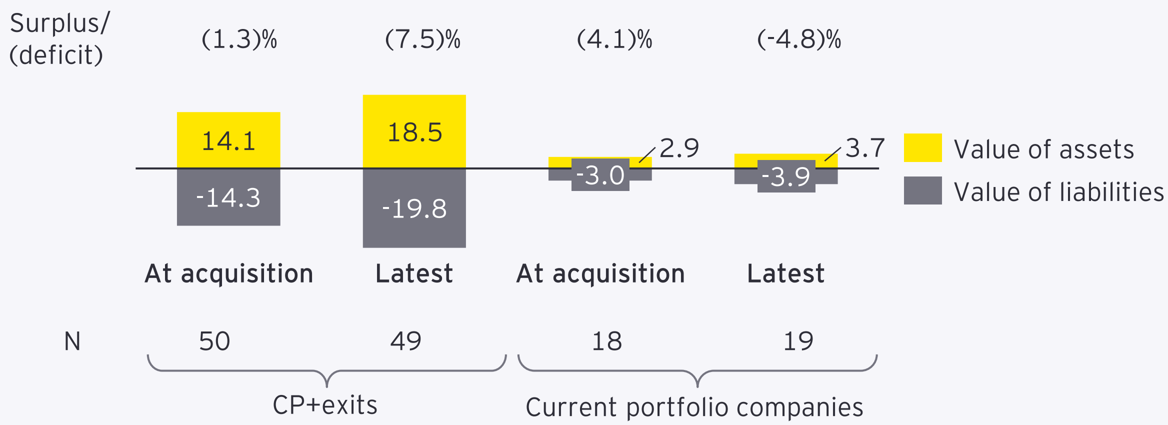


- Of the 56 portfolio companies that have provided pension information, 53 reported that they offer pension schemes to their employees (32 offer defined contribution (DC) schemes only, 21 offer a combination of defined benefit (DB) and DC schemes, and none offers DB schemes only).
- The Pensions Regulator is responsible for reviewing pension arrangements including at the time of change in ownership. Of the 21 companies including both DC and DB, 19 companies had a DB scheme in place prior to acquisition.
- Under PE ownership, there have been changes to portfolio company pension schemes:
  - At one portfolio companies, new DB schemes have been initiated.
  - Also, two DB schemes were closed to accruals for existing members.
- In 2020, there were minimal changes to pension schemes under PE ownership; no portfolio company initiated a DB scheme and no existing DB schemes closed.

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

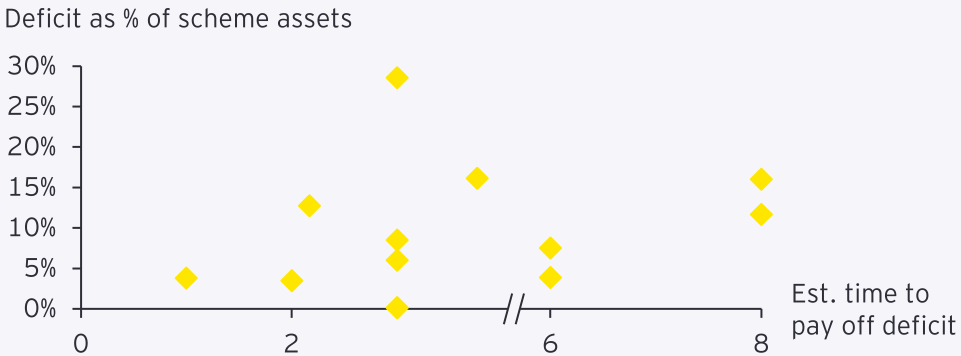
To date, the aggregated value of liabilities of defined benefit schemes of current portfolio companies exceeds the value of assets; the average time to pay off the deficit is estimated as 4.0 years, a reduction from 6.2 years in the 2019 report.

Defined benefit pension schemes: liabilities/assets over time



- The deficit at latest date of -7.5% deficit is lower than the previous year (-8.2%) and showing a lower payoff timeline (4.0 years versus 6.2 years as per the 2019 report).

Defined benefit pension schemes: time to pay off deficit (current portfolio companies)

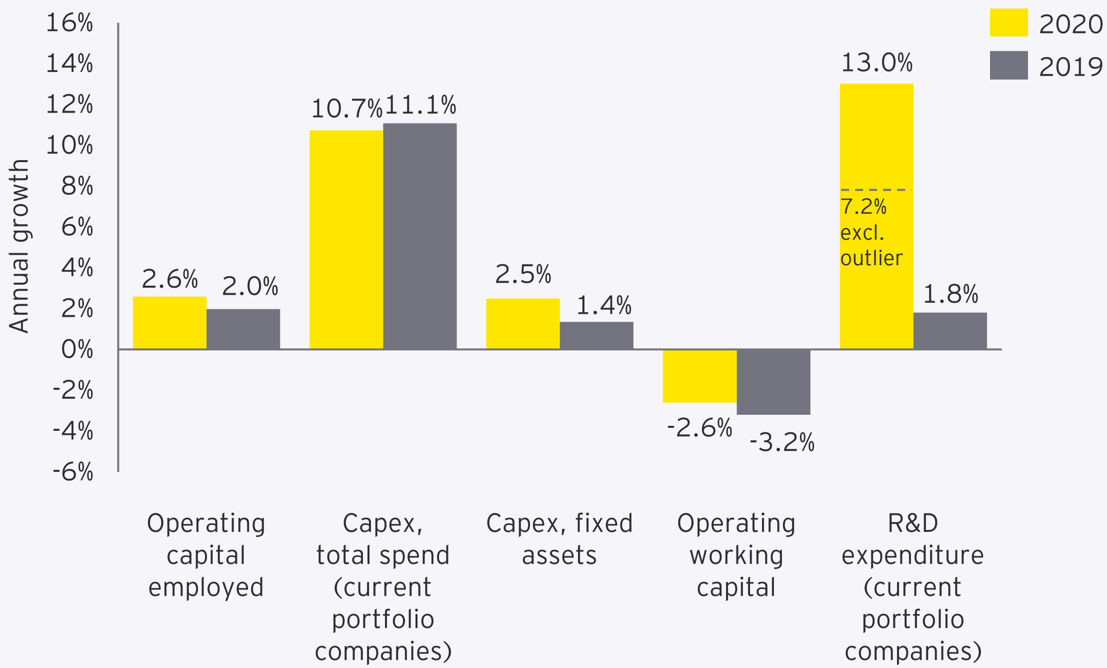


- Of the 21 current portfolio companies offering defined benefit pension schemes, 17 reported deficits:
  - Thirteen companies reported the estimated time to pay off the deficit, which on average is 4.0 years.
  - Four did not provide detail on estimated time to pay off the deficit, or reported that this was 'under discussion'.

Do portfolio companies increase or decrease investment?

Investment in operating capital employed at the portfolio companies has increased by 2.6% per annum.

Growth in measures of investment since acquisition



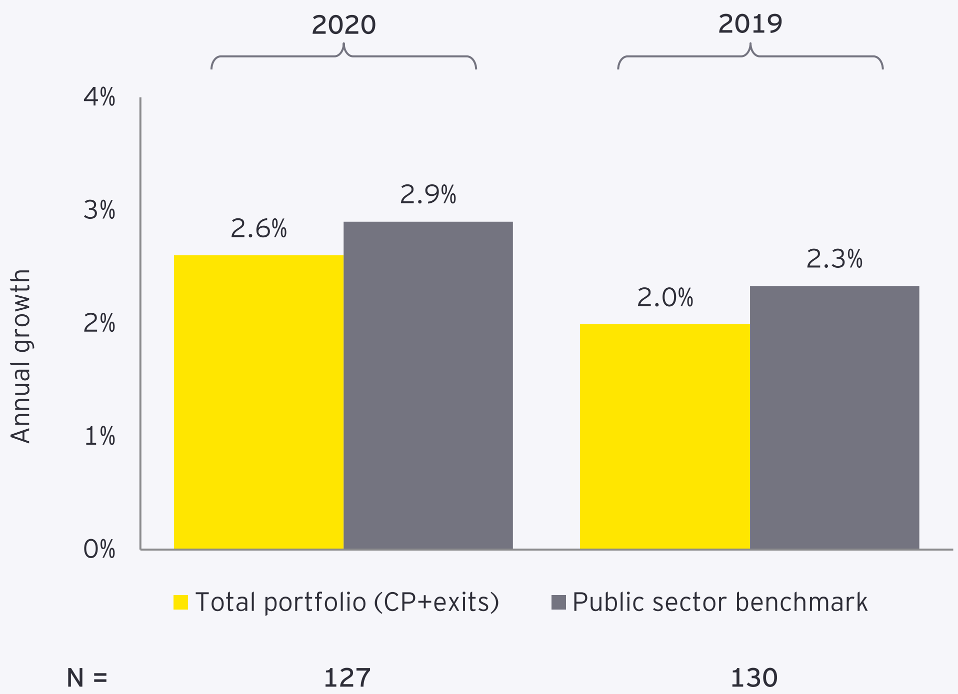
N (2020)	127	47	51	117	11
N (2019)	114	42	39	133	5

- There has been growth in most measures of investment at the portfolio companies whilst under PE ownership, with all measures, except Capex total spend showing an increase compared with 2019.
- Operating capital employed has increased at an annual average rate of 2.6%. This measure comprises growth in tangible fixed assets (property, plant and equipment) and operating working capital (stock, trade debtors and creditors).
- Total investing activities in current portfolio companies have increased by 10.7%. This includes all tangible/intangible investments (some of which relate to bolt-on acquisitions).
- The tangible fixed asset capital expenditure relates to investment in property, plant and equipment, and has increased at 2.5%. Operating working capital has decreased by 2.6% per annum; note that this will be impacted by the working capital profile (and underlying sector/nature) of the portfolio company.
- A minority of current portfolio companies measure expenditure on R&D, and several of those are in the industrials and technology sectors. For this group, total R&D expenditure increased by 13.0% per annum under PE ownership, though we note the small sample size.

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

The portfolio companies have grown operating capital employed at a lower rate compared with public company benchmarks, at 2.6% per annum versus 2.9% per annum.

Growth in operating capital employed since acquisition

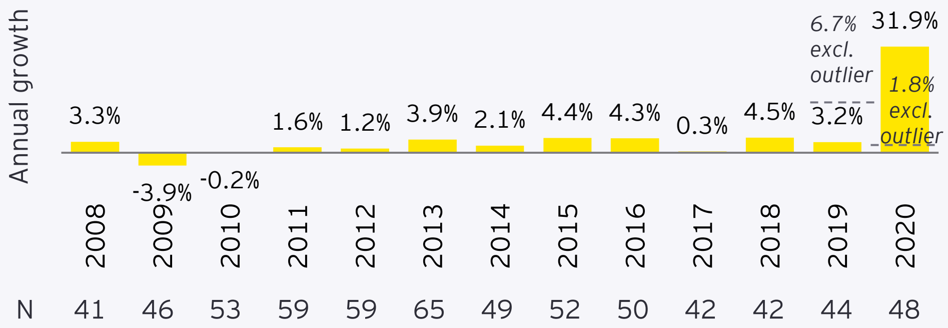


- The portfolio companies, in aggregate, have grown operating capital employed by 2.6% per annum during the entire period of PE ownership. The public company benchmark (time and sector matched) shows slightly higher growth in operating capital employed of 2.9% per annum.

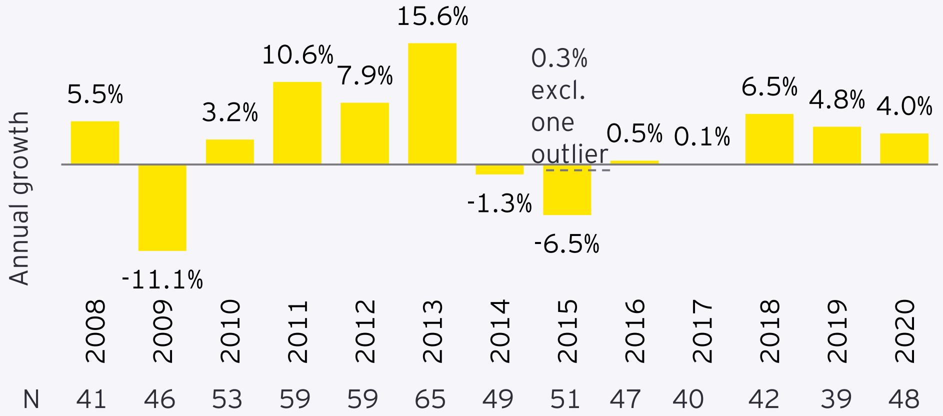
Do portfolio companies increase or decrease investment? (cont.)

YoY growth in operating capital employed was 1.8% in 2020 (excluding outliers), lower than 6.7% in 2019.

Year-on-year growth in operating capital employed



Year-on-year growth in capital expenditure on tangible assets

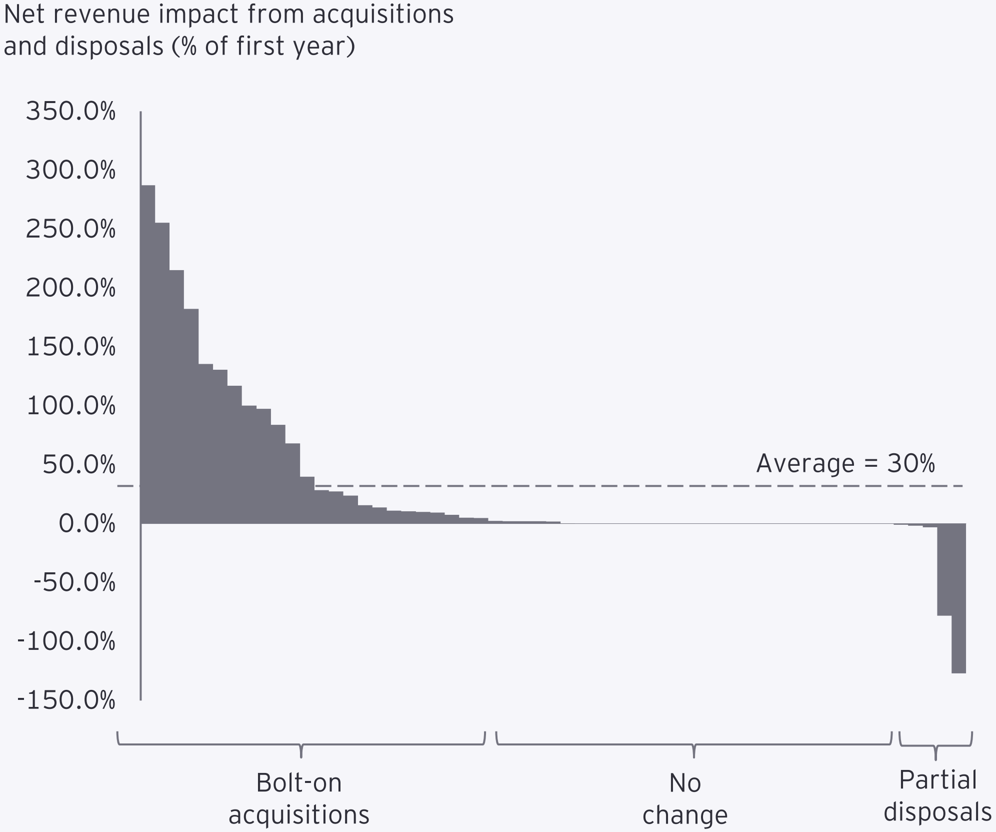


- Year-on-year growth in operating capital employed in 2020 was 31.9%, a significant increase from 3.2% in 2019. Excluding outliers in 2019 and 2020 results in growth of 1.8% in 2020 (6.7% in 2019).
- The higher growth compared with 2019 is impacted by significant movements in fixed assets in two large portfolio companies. The growth in operating capital employed would be 1.8% when adjusted for these companies, which is more in line with the ratios observed over the historical period.
- The CAGR of current portfolio companies over the last 13 years is 2.7% for operating capital employed and 2.5% for capital expenditure on tangible assets.

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

54% of the current portfolio companies have made net bolt-on acquisitions, whilst 11% 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 31 (54%) and 6 (11%) of the 57 portfolio companies under PE ownership include the impact bolt-on acquisitions and partial disposals respectively. This is in line with the previous year, and thus there is a continued trend in more investment in bolt-on acquisitions than from partial disposals. Twenty portfolio companies (35%) 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, eight 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.

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)

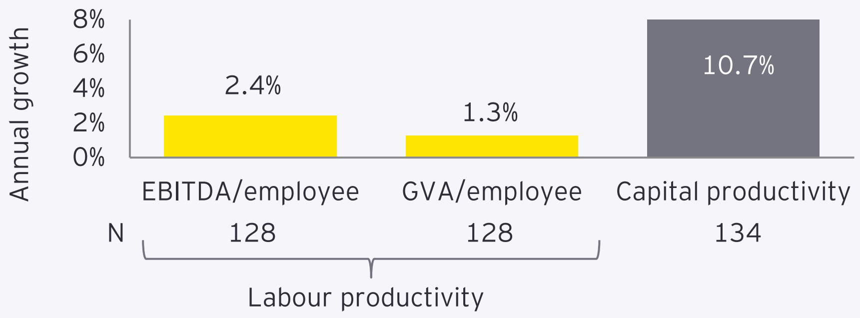
	Net debt (£bn)	Net debt/ EBITDA
Net debt at acquisition	19.8	6.0
Operating cashflow post tax and interest payments, pre capex	(13.0)	
Net funds to equity investors	5.6	
Capex (organic plus bolt-on acquisitions net of disposals)	21.2	
Increase/(decrease) in net debt	13.9	
Net debt at latest date	33.6	8.8

- 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 £13bn 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 £5.6bn, this has been more than offset by an aggregate additional investment of £21.2bn.
- To fund this investment in the portfolio companies, third-party debt (net debt) has increased by a net £13.9bn. As profit (or EBITDA) has grown in line with net debt albeit slightly slower, the leverage ratio of net debt to EBITDA has increased from 6.0 at acquisition to 8.8 to date. The ratio has been impacted by the 2020 trading (reduced EBITDA).

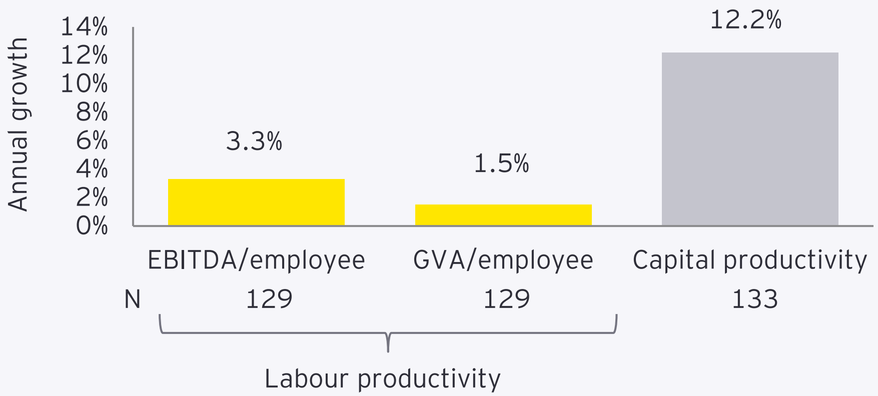
How does productivity change under PE ownership?

Labour and capital productivity have increased under PE ownership, by 2.4%, 1.3% and 10.7% per annum respectively.

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



Growth in labour productivity and capital productivity since acquisition (CP+exits, 2019)



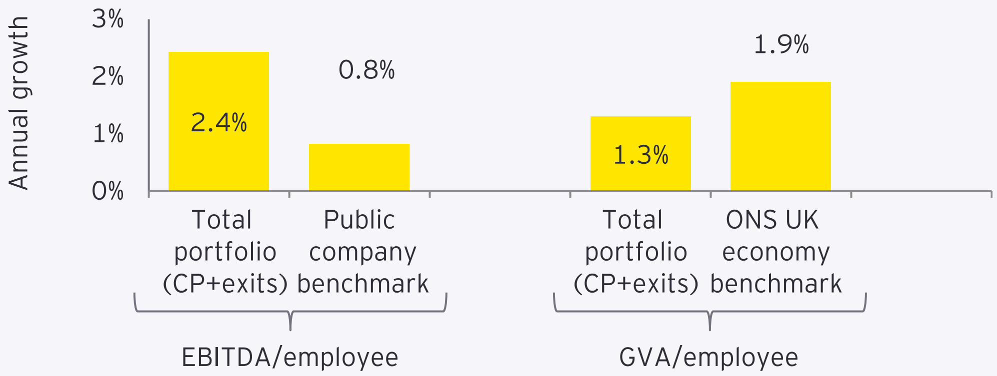
- Economic impact is a function of both changes in productivity and growth in resources. To assess the performance of the portfolio companies on labour productivity, two measures have been analysed:
  - Profit (or EBITDA) per employee, which can be benchmarked to public companies. On this measure, the portfolio companies have increased labour productivity by 2.4% per annum.
  - GVA per employee, which is often used by economists and can be benchmarked to the UK private sector. On this measure, the portfolio companies have increased labour productivity by 1.3% per annum.
- Capital productivity is measured as revenue over operating capital employed. The portfolio companies have increased capital productivity by 10.7% per annum.
- Part of the variability in the portfolio company data on a sector basis is due to changes taking place at one or more portfolio companies in a year that influence the overall result.

Sector	Growth in GVA/employee	Growth in capital productivity
Industrials	2.8%	16.0%
Consumer	0.6%	22.1%
Healthcare	5.6%	5.2%
Infrastructure	1.6%	-1.5%
Technology	3.5%	12.6%
Other	-0.1%	-2.9%

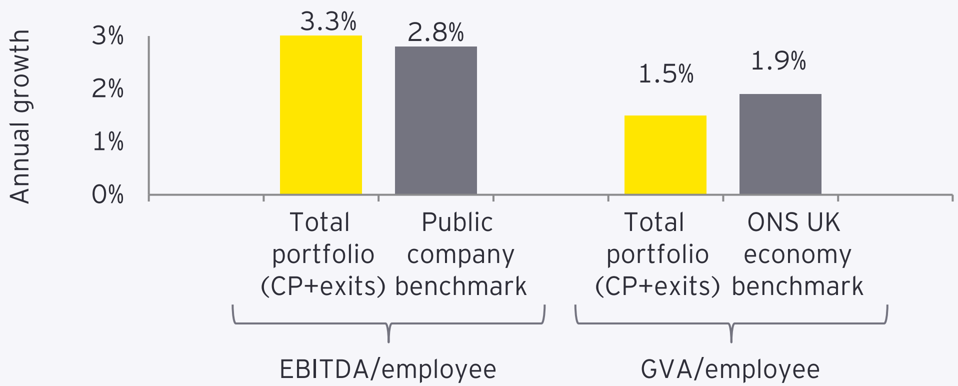
How does productivity change under PE ownership? (cont.)

Annual increase in labour productivity in the portfolio companies at between 2.4% and 1.3%, which is higher than the public benchmarks for EBITDA/employee while below the economy-wide benchmarks for GVA/employee.

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



Growth in EBITDA per employee and GVA per employee since acquisition (2019)

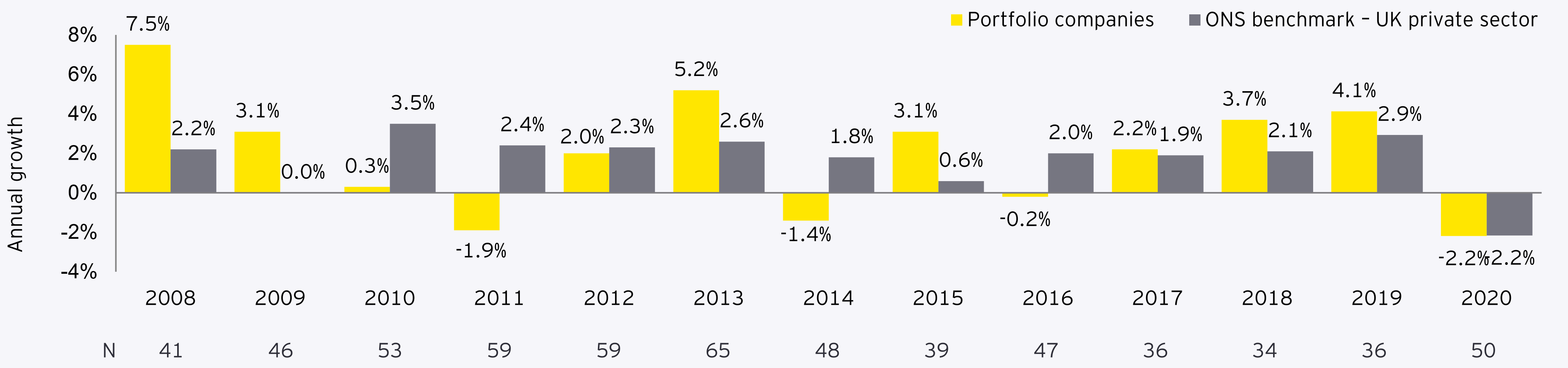


- On profit (EBITDA) per head metric, the portfolio companies have seen a higher increase in labour productivity compared with the public company benchmark.
- GVA per employee has increased at a similar rate compared with the UK economy.
- 2020 findings have overall decreased versus the prior year.

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

GVA per employee of portfolio companies decreased by -2.2% year on year versus 2019, in line with the UK private sector benchmark.

Year-on-year growth in GVA per employee, portfolio companies versus private sector benchmark

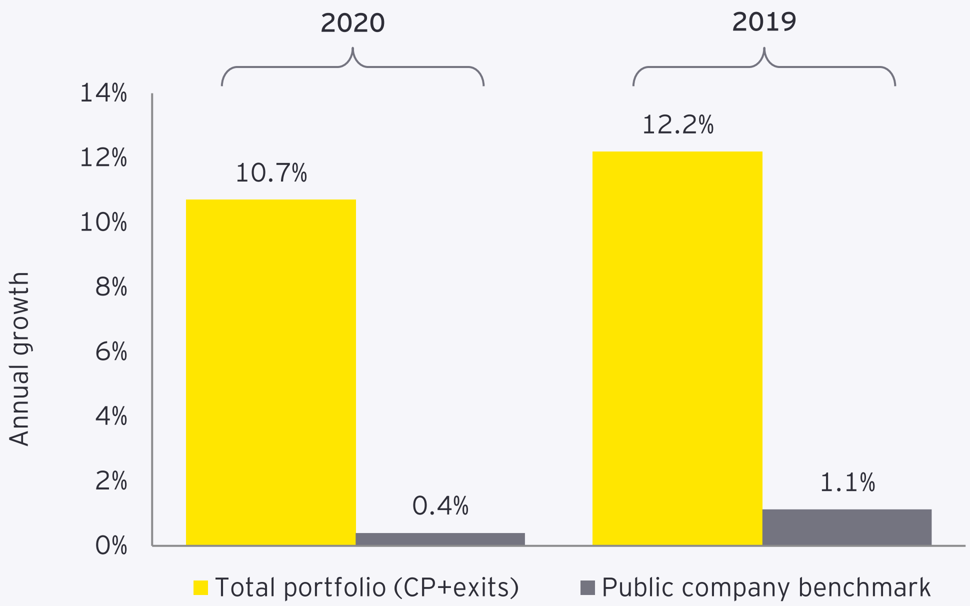


- Labour productivity in portfolio companies decreased by -2.2% in 2020, in line with the private sector benchmark growth of -2.2%.
- This decrease in labour productivity was driven by portfolio companies' EBITDA and employment cost decline.
- As with other measures in this report, the year-on-year growth in GVA per employee varies in the portfolio companies compared with a more consistent trend in the UK private sector benchmark (with the exception of 2020).
- The CAGR for GVA per employee for the current portfolio companies over the last 13 years is 1.3%.

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

Capital productivity growth in the portfolio companies exceeds public company benchmarks by 10.7% versus 0.4% growth per annum.

Growth in capital productivity since acquisition

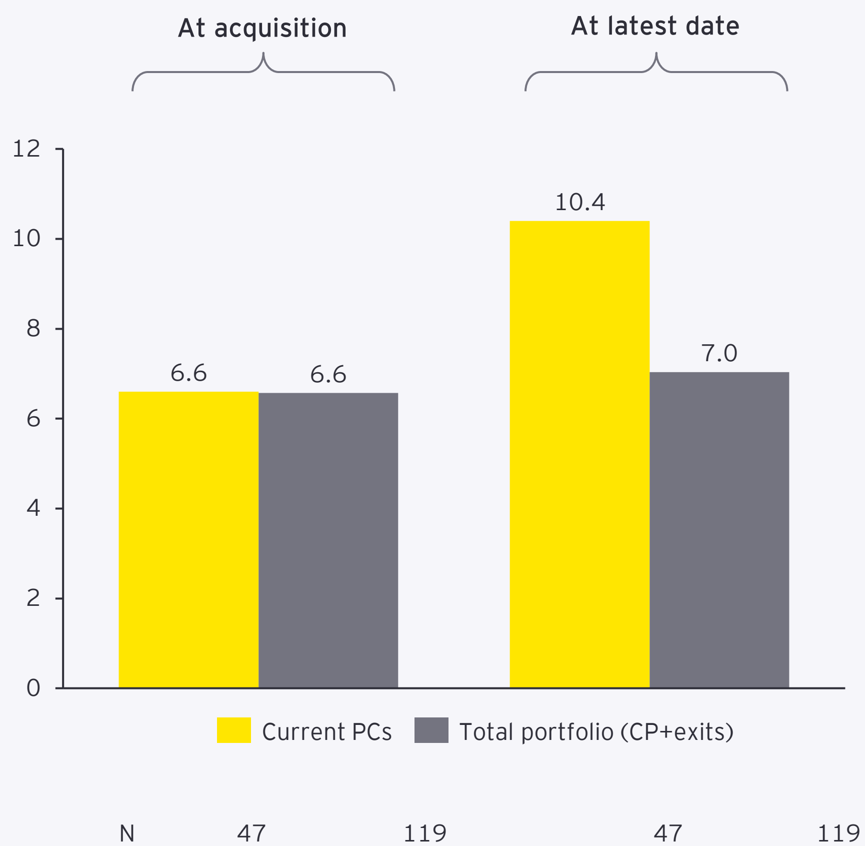


- There is no economy-wide data reported on capital productivity; hence capital productivity growth in the portfolio companies is compared with the public company benchmark. This shows that the portfolio companies have grown capital productivity faster, by 10.7% per annum in 2020 versus 0.4% per annum in 2020.
- 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.

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

All portfolio companies had an average leverage ratio of 6.6 debt to EBITDA at acquisition and 7.0 at latest date or exit.

Debt to EBITDA ratio (at acquisition and latest date)



- One measure of financial leverage is the ratio of debt to EBITDA, which differs from net debt to EBITDA by excluding company cash balances.
- Across the total portfolio, the leverage ratio averaged 6.6x at the time of initial investment by the PE owners and 7.0x at latest date or exit, indicating that debt has grown but at a slightly higher rate to growth in profit. By sector, leverage has reduced under PE ownership in all sectors except consumer, infrastructure and others.
- Excluding infrastructure assets, the leverage ratio across the rest of the portfolio averaged 6.6x at the time of initial investment and 6.6x at the latest date or exit.

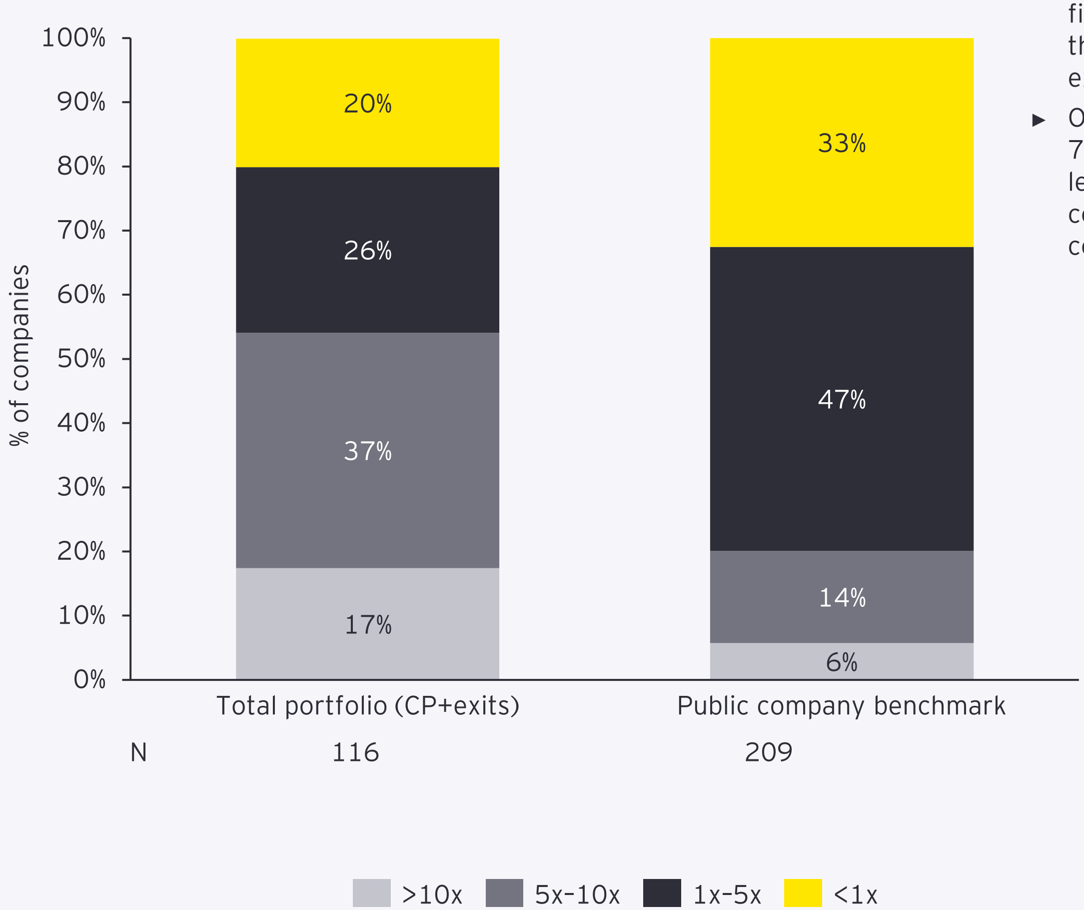
Sector (CP+exits)	Debt to EBITDA at acquisition	Debt to EBITDA at latest date/exit
Industrials	5.9	5.8
Consumer	6.8	6.9
Healthcare	5.6	4.2
Infrastructure	6.3	9.9
Technology	8.4	6.6
Other	6.8	8.2

- The current portfolio companies show an increase in leverage under PE ownership principally driven by a decline in EBITDA in 2020 (and this decline is likely attributable to companies negatively impacted by the COVID-19 pandemic).

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

Portfolio companies have much higher levels of financial leverage than public companies: 54% of portfolio companies have a debt-to-EBITDA ratio above 5x, versus 20% of publicly listed companies.

Comparison of financial leverage (debt to EBITDA ratio)

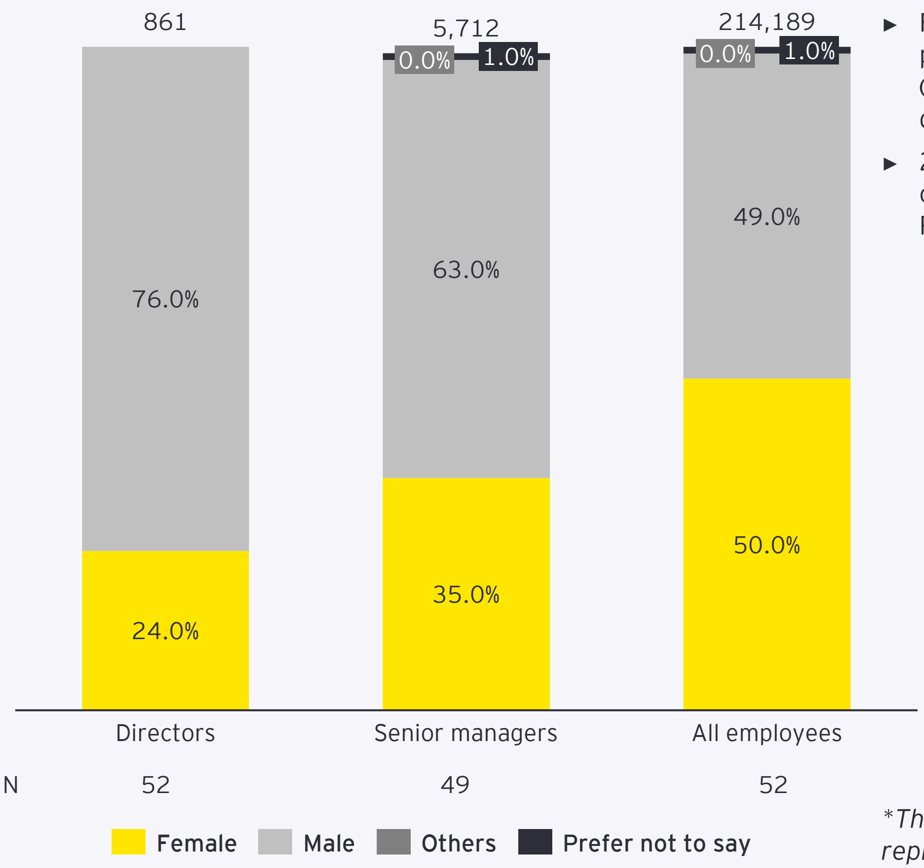


- One distinctive feature of the PE business model is that it typically uses greater financial leverage than most public companies. More debt and less equity at the time of investment increases the effect of change in enterprise value at exit on equity return, both up and down.
- On the metric of debt to EBITDA, the portfolio companies (CP+exits) averaged 7.0x compared with the public company benchmark of -2.4x, showing higher levels of financial leverage in the portfolio companies. Whilst 54% of portfolio companies have leverage ratios above 5x, this is true for only 20% of companies in the public company benchmark.

What is the level of gender diversity in the portfolio companies

Female representation is 50% at an overall employee level across the current portfolio companies and 24% at the Director level. 33% of FTSE 250 board positions are held by females (source: Hampton-Alexander Review).

Gender diversity amongst portfolio companies by designations



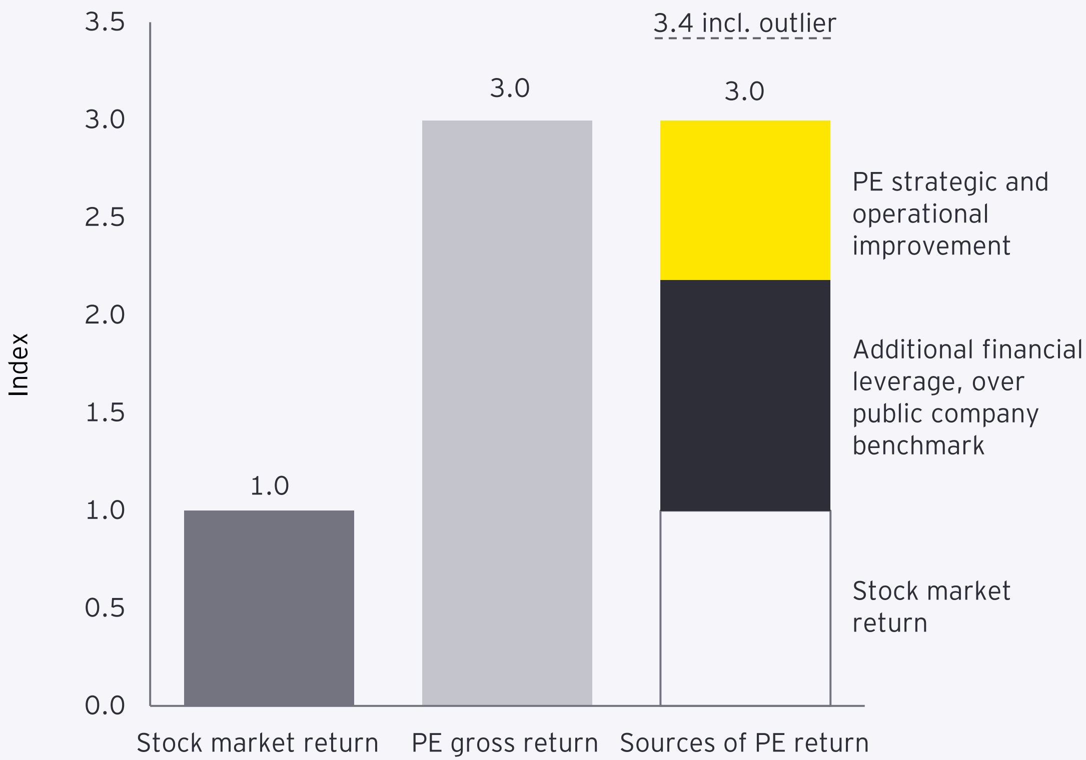
- Gender diversity may provide an additional lever for value creation within firms' portfolios.
- Female representation is 50% at an overall employee level across the current portfolio companies reporting the data, mostly driven by the healthcare sector (80% females out of c.40k employees), while all other sectors are male dominant. i.e., there is a skew when looked at on a sectoral basis.
- 24% of directors in the portfolio companies are females. This compares to 33% of FTSE 250 board positions held by females (source: Hampton-Alexander Review*).

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

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

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

Gross equity return and sources of return, portfolio company exits 2005–20

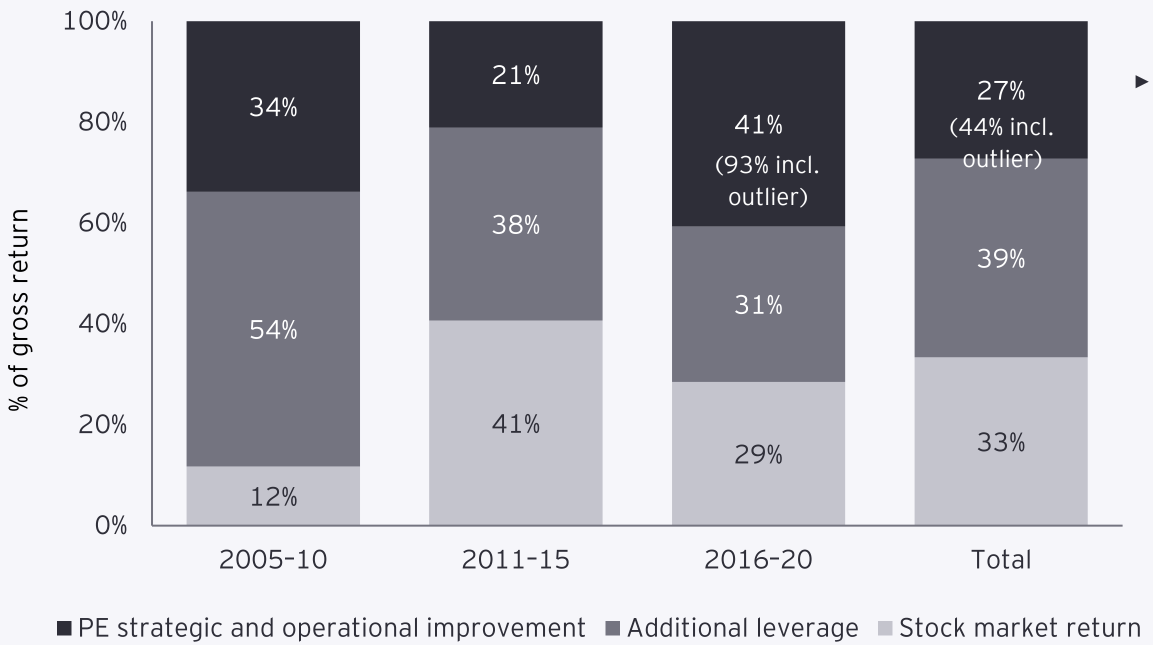


- The portfolio companies owned and exited by their PE owners achieved an aggregate gross equity investment return significantly in excess of benchmarked public companies, by a factor of 3.0x (compared with the equity return from investment in public companies matched by the same timeframe as each portfolio company investment). This is broadly consistent with the returns multiple in 2019 of 3.2x.
- For public and PE, the measure of gross return is before the fees and charges incurred by investors, which are higher in PE than in public equity.
- The source of the PE return over and above public company return comprises the amount attributable to additional financial leverage and PE strategic and operational improvement.

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

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 2005-20



	2005-10	2011-15	2016-20	Total
N	16	35	42	93
Average hold time (years)	4.2	5.9	7.0	6.1

- Analysing the sources of PE returns over time, here expressed by year of exit of the portfolio companies, shows some variation but also a consistent element of PE strategic and operational improvement.
- Of the four exits in 2019, one company had a distorting impact and has thus been excluded from the analysis.

4 Basis of findings

EY

Basis of findings

Question	
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.
Is the profile of the portfolio companies skewed by sector or size?	▸ The portfolio companies are skewed towards the healthcare sectors and consumer services, accounting for 71% of employment versus 52% in the UK private sector as a whole and under-indexed in the financial 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. Consumer and infrastructure sectors tend to perform above the other sector groupings, whilst industrials tends to perform the worst.
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.
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.

How is the portfolio company data aggregated?

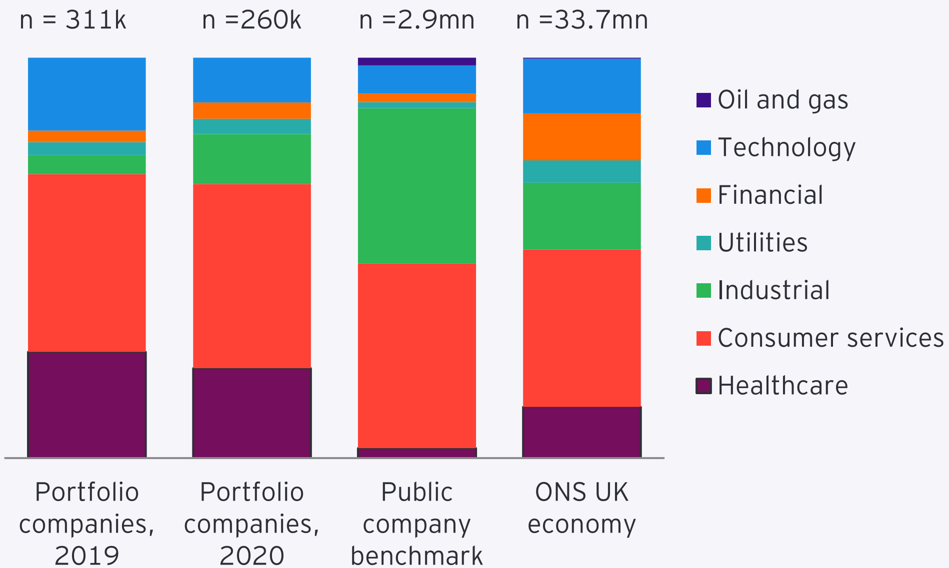
The findings in this report are aggregated across all portfolio company data points, to give insights into the systematic effects of PE ownership of the portfolio companies.

- 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.
  - Year-on-year: this measures the change in the current year from the prior year for current portfolio companies.
  - It should be noted that for the CP+exits measure, there is a calculation of average growth rates over different time periods across the portfolio companies, which creates some inherent inaccuracy. To avoid any significant distortion, the calculated average growth rate is tested against the simple check of percentage total change in factor/average length of holding period.
- Many growth measures including revenue, profit, organic employment, capital expenditure and cashflow require a comparison of full current year to full prior year to avoid the error inherent in annualising partial-year figures. This means that there is a delay from the time of acquisition by PE investors to when these year-on-year results can be incorporated in the analysis.
- In all findings, the figures presented include all the data points from the portfolio companies, except in specific situations where it is not possible to include individual companies, e.g., not provided in data template or a negative starting figure on growth rates, where this is noted on the chart. In some measures in some years, the calculated average is affected by the performance of one or two portfolio companies. In a few instances, this is deemed to distort the overall result, in which case the actual result is presented unchanged and a separate bar or line is added to show the result if the outlier(s) is excluded or a separate comment raised in the accompanying text. As noted through this report, the 2020 Report (and the likely impacts of the pandemic and a portfolio skewed towards consumer and healthcare companies) exhibits a number of outliers.
- 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?

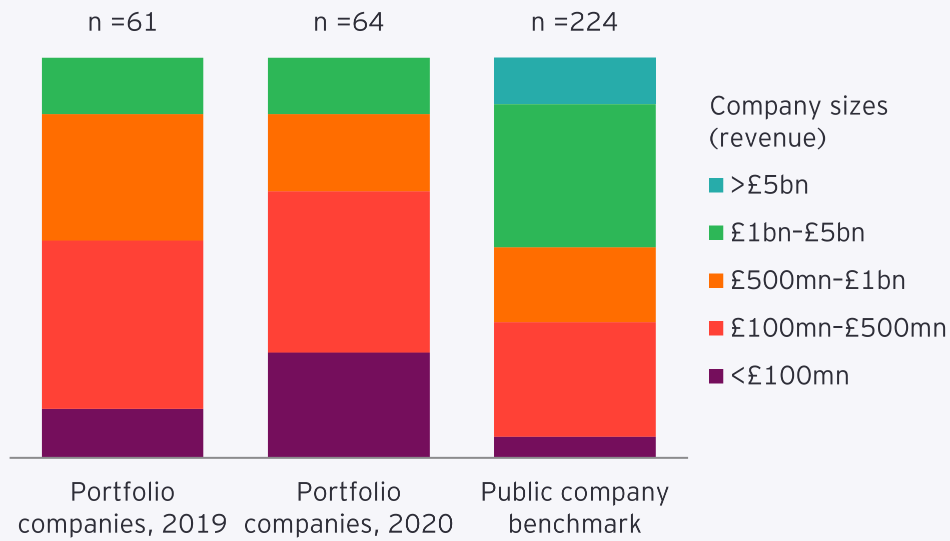
The portfolio companies are skewed towards the consumer and healthcare sectors, accounting for 68% of employment versus 52% in the UK private sector as a whole; the portfolio companies are smaller than the public companies that make up the public company benchmark used in this report.

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



- 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, 68% of employment is in the consumer and healthcare sectors, compared with 52% in the UK economy. Conversely, portfolio company employment in the financial sector is 4% of the total, compared with 12% for the UK economy as a whole.

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



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

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

How are the benchmarks derived and calculated?

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

Sector	Current portfolio companies	Companies in public company benchmark
Consumer	44%	35%
Healthcare	9%	4%
Utilities	11%	4%
Industrials	9%	33%
Technology	16%	12%
Financial	11%	8%
Oil and gas	0%	3%
Total	**100%**	**100%**

Public company benchmark

- There are no readily available benchmarks on company performance to compare with the portfolio companies. Public company benchmarks are prepared as follows:
  - All 600 primary listed companies on the London Stock Exchange (LSE) at 31 December 2020.
  - The following are excluded on basis of no sector overlap: 305 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), 36 companies with market capitalisation less than £210mn, the size threshold for take-privates in the PERG criteria, 35 companies with market capitalisation greater than £11bn (the market capitalisation of the largest portfolio company over the period of this study).
  - This results in 224 public companies in the benchmark group, with a sector composition as shown in the table.
- Public company data is sourced from Capital IQ and aggregated at the sector level to produce sector benchmarks for each measure over time. Sector benchmarks are matched to individual portfolio companies, by sector and also over the same timeframe. The overall public company benchmark result is then aggregated in the same way as for the portfolio companies, i.e., using the same weighting factors.

UK private sector benchmark

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

What is the returns attribution methodology?

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

- One of the most common measures of investment return used by PE investors is equity multiple, i.e., equity realised divided by equity invested, before all fund-level fees and charges. This data, which is not typically disclosed, is provided on the portfolio company data templates.
- To analyse the sources of any investment return, the 'returns attribution' calculation analyses the gross equity multiple and attributes any equity gain (or loss) to three components:
  - Additional leverage: the effect on the equity multiple of the additional financial leverage PE firms place on a company above the average public company sector levels. To calculate this effect, the capital structure of each investment is adjusted to match the average financial leverage levels of public company sector benchmarks; typically, this reduces the amount of debt and increases the amount of equity thereby reducing the equity return. The adjusted capital structure also takes into account interest savings over the holding period as well as the changes in net debt that took place during ownership; any leveraged dividends received by equity investors are moved to the date of exit, and the exit capital structure is adjusted for dividends. The difference between the original investment equity multiple and the adjusted equity multiple is the effect of additional leverage.
  - Public stock market returns: the effect on the equity multiple of underlying gain in the sector that an investor could have achieved by investing in public stock markets. This effect is calculated by determining the total shareholder return (TSR) earned in the public company benchmark sector over the same timeframe as the PE investment. Both measures of equity return capture sector earnings growth, valuation multiple changes and dividend payments. The public stock market return TSR is converted into an equivalent equity multiple figure and then compared with the investment return after the adjustment for additional leverage, i.e., when both public and PE have the same capital structure.
  - PE strategic and operational improvement: this is the component of the equity multiple that is not explained by additional leverage or public stock market returns, so it captures all the incremental effects of PE ownership 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 Committee of the BVCA, and their comments have been incorporated.

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Glossary of methodology for select analysis

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

For further information

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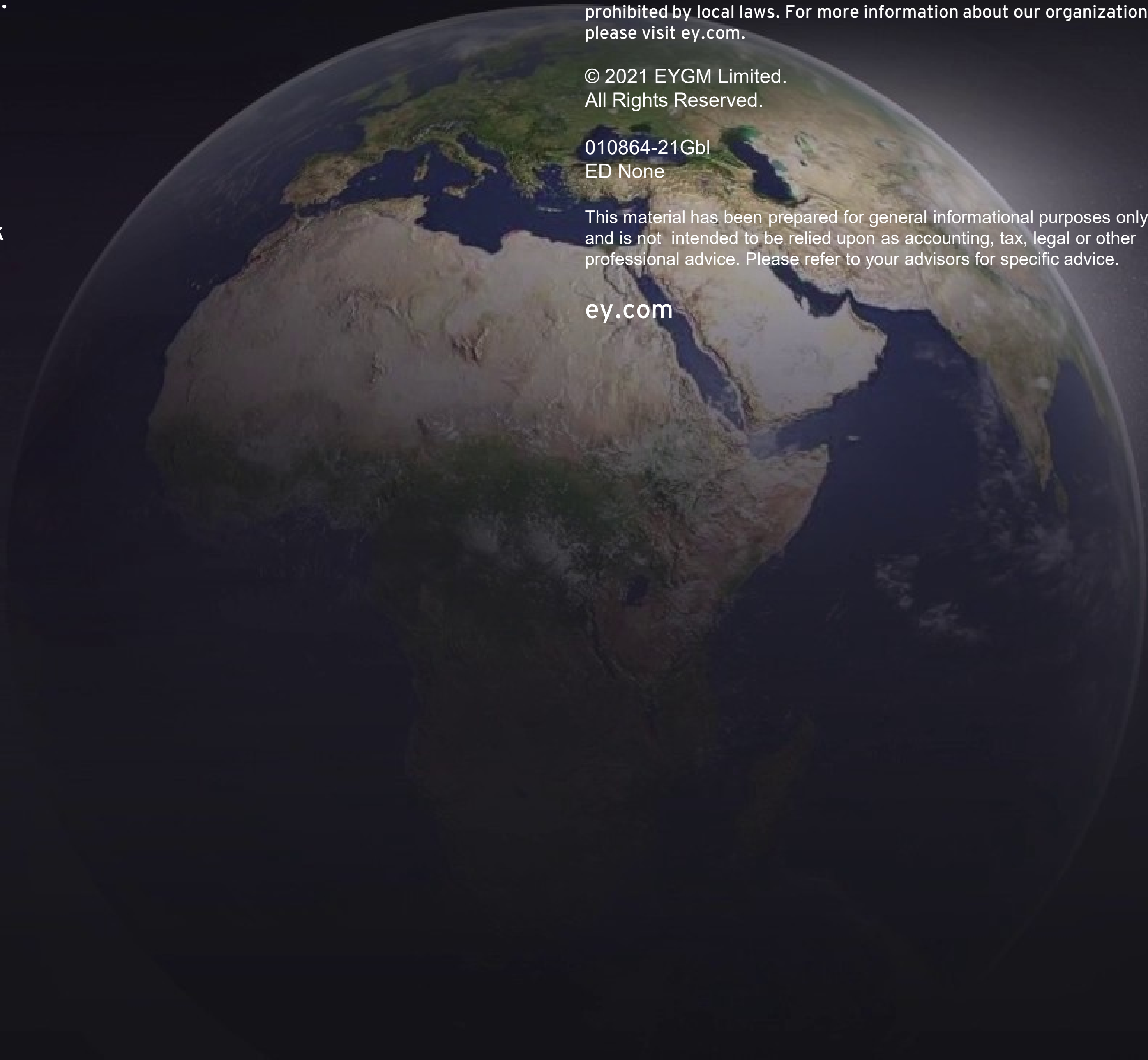

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