Grant Thornton

Private equity

Mid-market

Trends

Private equity in the mid-market

Maximising your investment opportunities

We understand your challenges

When the global COVID-19 pandemic stormed across the globe in early 2020, the private equity sector was hit hard: deal flow fell through the floor as mid-market funds and advisors battened down the hatches to focus on active portfolio management.

Yet the bounce back was swift: the total value of private equity investments in the first three quarters of 2020 exceeded 2019 totals. This resilience and the record sums of dry powder available are a cause for optimism even as ongoing uncertainty from the coronavirus pandemic persists.

As private equity firms rapidly adapt to the new market conditions, mid-market businesses are increasingly looking to them as a route to growth. Today we see deals coming back to market and opportunities for investment opening up in areas as diverse as technology, education, pharmaceuticals, food-tech and distribution.

This is a pivotal moment for private equity. While the global challenges facing businesses are unprecedented, investors who see the potential opportunities and respond with agility and innovation to meet them are well-placed to reap the long-term rewards.

It's a situation that demands a different type of adviser – one willing to go beyond business as usual so you can too. At Grant Thornton we deliver an experience that's personal, agile and proactive. With a deep understanding of the dynamics and challenges faced by mid-market businesses across a variety of industries, we can help you to identify and navigate investment opportunities. Our global scale and capability means that we are wherever you need us to be.

We look forward to supporting you to navigate the landscape and achieve accelerated growth for your business.

Dinesh Anand

Global Leader – Private Equity

Key industry trends for 2021

Not surprisingly, many of the key trends we see in the private equity sector are driven by the response to changes in the economy, business and communities since the start of the pandemic. Some may be short-term, giving investors a limited window of opportunity, but others could provide a new focus and outlook for the long-term.

As we see which enforced changes to consumer and societal behaviours have become a permanent part of a new world, the business landscape will continue to be dramatically reshaped. Businesses with insulated, long-term revenue models are likely to do well, such as, tech or tech-enabled assets, including software as a service (SaaS) and managed-services models with high recurring revenue. Pharma, bio and health tech, all of which have seen increased demand, are also likely to thrive, along with mission-critical service offerings in the public sector.

Each market will encounter its own set of opportunities and obstacles in the months to come, some of which may not yet be apparent, but here is our pick of the industry trends to watch in the coming year.

Rise in demand for Private Equity funding

Our understanding of mid-market businesses – the issues they face and the support they can benefit from – tell us that this is a great time to be looking for new investment opportunities.

As global markets continue to grapple with the impacts of COVID-19, we have seen many mid-market businesses become concerned about their ability to raise finance to invest in growth. Their leaders are increasingly looking to alternative finance such as private equity to achieve their strategic ambitions, from accelerating growth to diversifying their offering.

For many owners, part of the draw of private equity is the expertise an investment partner can bring as part of the transaction, whether that's in international trade, diversification, IT or even HR. As entrepreneurs and businesses assess private equity funding options, many are also effectively choosing a partner to join them on their business journey.

The sheer range of private equity options available makes it an attractive funding choice, but in-depth advice and guidance is key. With the right market knowledge, every business can be matched with the right investor, and every investor with the right opportunity, whatever the sector, whatever the goal.

SPACs become part of the establishment

The rise of Special Purpose Acquisition Companies (SPACs) has been widely predicted, but the volume of deals involving SPACs has exceeded expectations as they prove an attractive option for private equity.

Essentially shell companies created to raise capital through an initial public offering (IPO), SPACs are also known as blank cheque investments as investors buy a share of the fund's potential, in reality investing in the reputation of the sponsor who usually has particular sector, listings or investment experience. Once created, the SPAC typically has 18 to 24 months to find an acquisition target, at which point it acquires the investment and continues to trade as a single company.

SPACs offer considerable flexibility and opportunity for private equity investors with less upfront investment, an easier way to go public, and a clear exit route. Taking as little as two to three months to finalise, rather than two to three years, they are a swift way to deploy capital. They can be cheaper to execute and offer opportunities for higher valuation, as well as allowing investors to benefit from working with successful and often well-known asset managers. Crucially, there's also an opportunity to get your money back if the final deal doesn't stack up.

With equity-based companies on the decline, it's no wonder then that private equity firms have looked increasingly to SPACs as an alternative investment opportunity. They have been heavily pursuing areas such as tech and healthcare and have been key players in the recent SPAC boom which has also attracted respected household names such as Goldman Sachs, Credit Suisse, and Deutsche Bank.

In 2020 there were more than 250 SPACs raised in the US market, representing over US$75billion of capital, and we expect to see this trend continue.

Technology is king

With the already increasing focus on technological transformation accelerated by the pandemic, it's perhaps no surprise that private equity funds are increasing the presence of Tech in their portfolios.

The last 12 months have seen a worldwide shift from physical to digital – at home, at work, in commerce and in government – at an unprecedented speed. This follows a period where new technology breakthroughs, shifting consumer consumption patterns and prevalence of big data and data analytics had already led to redefined business models and increasing convergence of industry players within the technology sector.

The rapid uptake of technology means that Tech-enabled businesses – especially those in education, healthcare and commerce – will continue to draw interest from funds, as will those involved in digital transformation and cloud implementation.

As we move forward, private equity houses will continue to be attracted by typical technology business models which offer recurring revenue (providing a stable base to grow from) and inherent scalability. It's likely that they'll also be drawn to tech-enabled businesses that can sustain growth through the current – and any future – regional or global disruption.

The added value in responsible business

Also noticeable is an increased focus on Environmental, Social and Corporate Government (ESG). Amid changing consumer patterns and the ascending class of socially-responsible millennial investors, private equity firms are changing the way they think about investing. Many have introduced ESG factors into their portfolio companies, due diligence procedures and operating plans as they look to create benefits beyond financial returns, which ultimately point to more sustainable growth.

As a result, we see the length of investments expanding. In contrast to the speed to value offered by SPACs, another side to private equity wants to focus on more value-driven business transformation, rather than purely come in and exit in the short term. The exit window for private equity firms has grown on average from approximately three to around five years. Today, many are looking for value-driven transformation to enable long-term growth and better returns rather than just doing a cost stakeout and quick exit, and younger investors in particular may be looking for tangible sustainability guarantees.

Construction and infrastructure – new private equity building blocks

As another result of the pandemic, other sectors – such as construction, infrastructure and manufacturing – could witness a rise in medium-term potential tied to the economic weighting and governmental policies of the country they operate in.

As one example, the Australian government has earmarked infrastructure for increased spending in 2021, which could see it targeted for technology integration services, opening up even more new opportunities. The same could be true of the UK, where private markets will have a larger role to play in funding infrastructure projects and the related supply chains due to depleted public coffers.

How our private equity services can help you

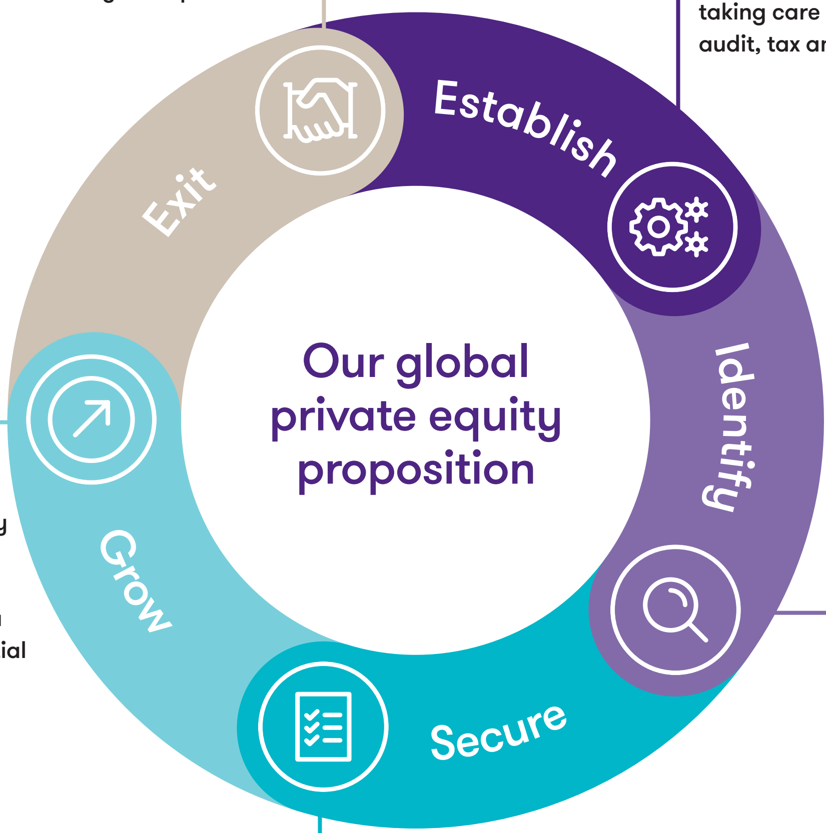
At Grant Thornton, our industry expertise, knowledge of the mid-market, and global capability mean we are well-placed to help you pursue new opportunities and realise your strategic ambitions. We believe in developing strong, trusted client relationships from the outset, allowing our network of private equity experts to use their insight and depth of experience to guide and support you through the entire lifecycle of your investment.

Our team go beyond to offer proactive insights, practical guidance and positive progress, helping you assess risks, move quickly on identified opportunities and maximise deal ROI. We have solutions at every stage of the private equity process, from opening and structuring your investment fund, to ongoing fund management, securing investment deals, driving growth and value creation, through to your final exit strategy.

We offer a fully integrated service across all fund types, including venture capital, growth capital and buyout funds, providing audit, tax and advisory expertise backed by global reach across the US, UK, Europe, Asia, South Africa and Australia.

We leverage industry knowledge and expertise to develop, manage and execute a strong exit strategy, helping you achieve a ROI that meets your expectations.

We structure the fund ready for investment, taking care of governance, audit, tax and regulations.



We help you find the right investment to match your strengths and provide strong ROI potential.

Our full range of operational and strategic consultancy services supports growth and value creation, helping you realise the full potential of your investment.

Combining informed negotiation with valuation, due diligence and tax structuring services, we help you secure the best possible deal to unlock value potential.

Establishing the fund

We work with you to establish and structure the fund with the appropriate governance. Taking a comprehensive approach to setting up fund operations, we provide internal audit and tax services, define policies and practices, and ensure regulatory filings are completed. We can also carry out due diligence (Schedule K-1) on each fund participant to ensure full transparency.

We support you to choose the best business structure and fee structures, to develop an investment focus and strategy for fund development, and to identify key target industries or sectors for acquisition.

Key services

- Fund formation
- Governance
- Audit and tax services
- Investor structuring
- Compensation and benefits
- Due diligence on fund partners
- Identifying fund strategy

Identifying the right deal

Working with you to create a comprehensive target profile, our investment banking teams find and evaluate investment opportunities that offer the greatest potential of return and align with your fund's strategy and outlook. Our extensive mid-market knowledge enables us to proactively identify potential investments, creating exciting opportunities for both you and the target acquisition, and matching deals with your expertise to make the most of your experience and play to your partners' strengths.

We understand how important it is for you to have full visibility of the opportunities and risks associated with any investment. We offer a comprehensive range of services to address issues that may arise along the way: from financial modelling to assess potential revenue growth and identify possible cost reductions, to comprehensive due diligence, debt advisory and tax.

Key services

- **Target profiling**
- **Industry/market scans**
- **Assisting potential target acquisition**
- **Investee company health check**
- **Financial and operational due diligence**
- **Promotor and company background checks**
- **Social and environmental due diligence**
- **Technology reviews**

Case study

Uncovering hard evidence on a software start-up

Opportunity: Our client wanted to add to its existing platform investment in a traditional cash registers producer by acquiring a software company that provided solutions for small and medium sized owner-led businesses. Grant Thornton Germany was asked to carry out financial and tax due diligence of the target.

Challenge: The target had cash-based revenue recognition practices and, as a start-up, the quality of accounting and reporting information available was insufficient for full assessment.

Solution: We obtained CRM downloads from the target and recreated sales patterns based on the billing information. These were then used for value-add Data Analytics to produce analysis of new, lost and existing clients. The process allowed us to recreate a segment-based sales database and analyse the revenue patterns based on segments and client characteristics.

Outcome: We gained a better understanding of recurring sales and identified a solid basis for planning from several non-recurring revenue streams. By building an understanding of the client and revenue composition as well cash inflow patterns for the recurring streams, we were able to carry out and present more detailed and value-add analyses beyond the client's expectations. This was well received and appreciated by the client and has resulted in repeat engagements from the client.

Securing the deal

Our experts have built on years of experience to develop a holistic and integrated approach to deal closure, ensuring a smooth but rigorous transaction that is not limited to financial and tax considerations, but encompasses commercial, operations, HR, IT and cultural diligence. From deal strategy and operation to evaluating the financial and operational issues affecting performance and identifying strategic alternatives, we address concerns, manage risk and seize opportunities to help you unlock the potential for growth, resulting in measurable deal value and higher post-close earnings.

Due diligence: we carry out full financial, tax, commercial and integrity due diligence to ensure you have full sight of the investment.

Review and alignment of accounting policies: we carry out an in-depth assessment in to the target's accounting policies, to ensure you have everything you need to know around their performance and prospects. We can also help to align these policies with the rest of your portfolio, to keep things simple for you to manage.

Valuation: we manage the full range of valuation challenges, settling on a fair value that captures the full business potential, in line with prevailing market conditions. Our team has significant experience of providing valuation services in numerous situations and contexts and across a host of sectors.

Tax structuring: proven cross-border expertise and in-depth knowledge of different jurisdictions enables us to create the most tax-efficient structure for your new business. We assess the historical, current and potential tax risks of the target business to help you avoid pitfalls and seize opportunities. With a deep understanding of private equity, our transaction tax experts anticipate your needs and come up with robust tax solutions that help you achieve business objectives in an efficient and compliant manner.

Deal negotiation: we lead final negotiations on your behalf, securing the best deal possible, coordinating multiple stakeholders and advisors, and finalising the Share Purchase Agreement, including terms of sale, price, timing, warranties and indemnities and any post-deal adjustments. We can also assist you with any claims on purchase price adjustments, should you require this after the deal has closed.

Key services

- Deal negotiation and closing
- Transaction services
- Due diligence
- Valuation
- Tax structuring
- Transaction accounting advisory
- Share Advisory Purchase agreements

Case study

Generating US$1 million global tax savings

Opportunity: A global private equity firm trading in real estate needed help to acquire a line of business from a publicly traded company. The business operations were conducted in over 20 countries through over 50 separate legal entities.

Challenge: The US$400 million+ deal required an integrated service strategy to identify issues and explore structuring scenarios across 20+ member firms, including Australia, Brazil, Canada, France, Japan, the Netherlands, Singapore, Spain and the UK.

Solution: Our network of firms coordinated financial due diligence, tax due diligence, international tax consulting, and valuation services. As project leaders, the Grant Thornton team worked long hours to identify issues and solutions to preserve advantageous tax attributes, including NOLs and R&D credits, and setup the structure for the best tax position.

Outcome: Grant Thornton designed a structuring solution that facilitated tax-efficient cash movement, preservation and utilization of over US$100 million worth of pre-acquisition tax attributes in many jurisdictions, and conformed to lender demands about obtaining security interests in underlying assetsoperations. The client is looking to engage us as the target's financial statement auditors and global tax compliance service provider.

Growing the investment

Our industry focus means that we understand the world mid-market businesses operate in – and we have the expertise to help you navigate it. We can work with your portfolio to achieve the rate of growth and return on investment that you expect. We help management teams and equity stakeholders to align their strategy and goals and maintain a focus on creating value and accelerating growth, always with an eye to a successful exit strategy.

We offer a full range of operational and strategic support to help challenge and support management to enhance value. Our operational consultancy teams can help drive performance and profits, and our technology consultancy ensures companies seize the benefits of digital transformation to maximise value.

Good governance is essential and we undertake regular audits of portfolios, as well as regular valuations of un-exited investments and internal tax compliance.

Key services

- Assurance
- Tax advisory
- Operational advisory
- Corporate governance
- Regulation compliance
- Compensation planning
- HR audits
- Social and environmental CSR reviews
- Developing MIS/reporting
- Assistance with monitoring accounting
- Board resolution advisory

Case study

Creating healthy growth in community healthcare

Opportunity: In 2018 one of the largest private equity firms in the US, with 96 current portfolio companies (and counting) and $28 billion under management, envisaged a better community oncology model. They saw an opportunity to leverage Grant Thornton's significant experience to transform community oncology and change the status quo to better benefit oncologists and their patients.

Challenge: Collaborating with Grant Thornton, the private equity fund portfolio company aimed to tackle the challenge of quickly standing up a company while also developing and executing a strategy to facilitate rapid growth in an evolving healthcare environment.

Solution: Grant Thornton began by creating the new stand-up company framework, setting goals and timelines for the organization, then developing specific strategies for each work stream. The Grant Thornton team deployed functional resources to execute core tasks within each work stream while the portfolio company focused on overall strategy and execution. Leveraging expertise from all work streams, Grant Thornton helped define a framework for operating the company and integrating practices into the shared services model. Acting in both advisory and functional roles, Grant Thornton effectively filled critical roles that were unfilled, and provided essential services to the portfolio company across 11 work streams to establish and position the company for success.

Grant Thornton also advised the portfolio company that an ERP system would be core to their mission, and assisted with vendor selection through an abbreviated RFP process. Once a vendor was selected, the portfolio company asked Grant Thornton to implement their chosen ERP solution.

Outcome: The portfolio company currently consists of three founding practices in Nashville, Memphis, and Port Jefferson, NY (NYC Metro Area). With over 227 oncologists, the company is able to treat more than 157,285 people living with cancer throughout 62 care locations. Grant Thornton continued to work with portfolio company through 2019, implementing Infor Lawson ERP, helping to onboard practices in the pipeline, and serving as a trusted advisor and crucial part of the company's functional areas. Thanks in large part to Grant Thornton's strategic leadership, program governance, and functional support, the portfolio company expects to earn over $1 billion per annum in revenue, and is reshaping the current paradigm of oncology treatment.

Exiting the investment

As the culmination of the private equity journey, a good exit is vital and takes extensive planning and preparation. Our experts begin laying the groundwork early in the investment process, working with you to ensure you are exit-ready whenever the conditions are right – whether that's as part of the investment lifecycle, or in response to a market opportunity, wider economic conditions or specific company dynamic.

Our sector experts are constantly on the lookout for exit potential through M&As, listing, or via selling on to another private equity concern. They leverage industry knowledge to identify where and when deals are happening, where the best valuations can be achieved and to target and evaluate potential buyers.

Alongside this, we prepare full supporting financial information, vendor due diligence and valuation analysis to help realise the best return on your investment.

Key services

- **Preparation of sale document**
- **Exit options advisory**
- **Reverse due diligence**
- **Self-side advisory**
- **IPO readiness reviews and assistance**
- **Reporting account services**
- **Financial statement conversations**
- **Tax structuring**

Case study

Freeing up funds for a smart exit

Opportunity: A private equity-owned technology company looked to grow its value in the hope of increasing eventual ROI.

Challenge: The internet service provider asked Grant Thornton to help build the value of the company and prepare a strategy for a successful future exit.

Solution: Our full range of services facilitated the successful acquisition of a cloud company, allowing our client to diversify into a growing sector and better position itself for a profitable sale.

Outcome: The Tax team helped the company avoid a tax penalty, freeing up funds that were subsequently used to grow the business. Based on our recommendations, the company also successfully implemented a new accounting system to increase the effectiveness and efficiency of its financial reporting.

Why Grant Thornton

We go beyond business as usual, so you can too.

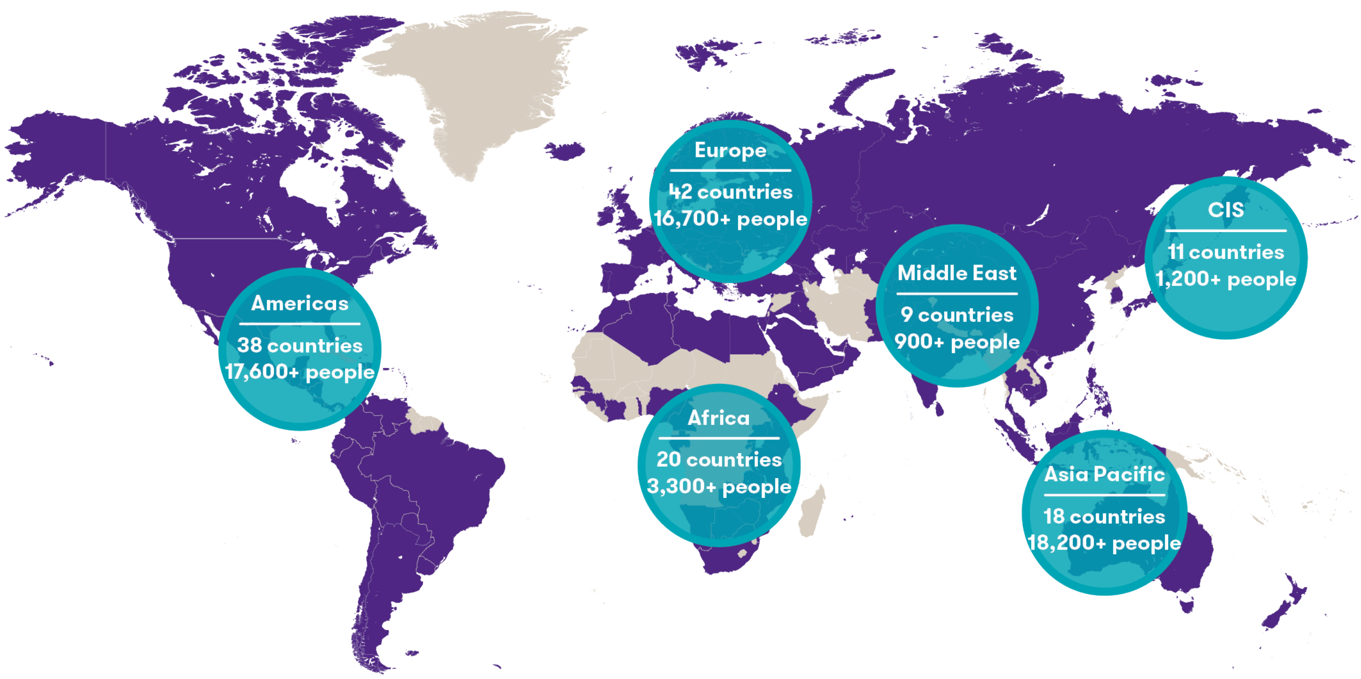
The global challenges facing businesses are unprecedented. That demands a different type of adviser. One willing to go beyond what's expected to deliver an experience that's more personal, agile and proactive. That's Grant Thornton.

We embrace what makes each market unique. On a global scale.

We are a global network with 58,000 passionate people in member firms in 130 countries, with one common goal — to help you realise your ambitions in any environment. Which is why we combine global scale and capability with local insights and understanding. So, whether you're growing in one market or many, looking to operate more effectively, managing risk and regulation, or realising stakeholder value, our firms have the assurance, tax and advisory services to meet your needs.

Going beyond is what makes us different. And what makes us different is what clients value most.

We know because that's what our clients have told us. Year after year, our global Net Promoter Score rates us as world class (average score based on surveying 10,000 member firm clients in 40 countries). More than twice the average for business-to-business service providers.



Our distinctive client experience sets us apart

USD5.76bn (2020 revenue)	58,000+ people	750+ offices	138 countries

Trust us to deliver

We know the market.

Our core business is with same middle-market dynamic growth companies, stakeholders and teams targeted by our private equity clients. It means we understand the goals and challenges of private equity and the companies they back.

Our priorities match.

We deliver value with deep industry knowledge, financial and operational skill, and a comprehensive understanding of the unique challenges facing funds, dealmakers and portfolio company management.

We offer support through the entire investment life cycle.

We advise on all aspects of private equity transactions, from fund structure and operations to transactions, value creation and exit strategy execution.

Centralised contact for fast delivery and captured synergies.

We involve relevant key relationship partners and private equity subject matter specialists, regardless of where they reside in the firm, geography or service line.

Global reach.

Our member firms work with thousands of international companies and regularly collaborate with other Grant Thornton member firms worldwide on cross border needs. We are ready for any global consideration you need to address.

Contact one of our private equity specialists

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