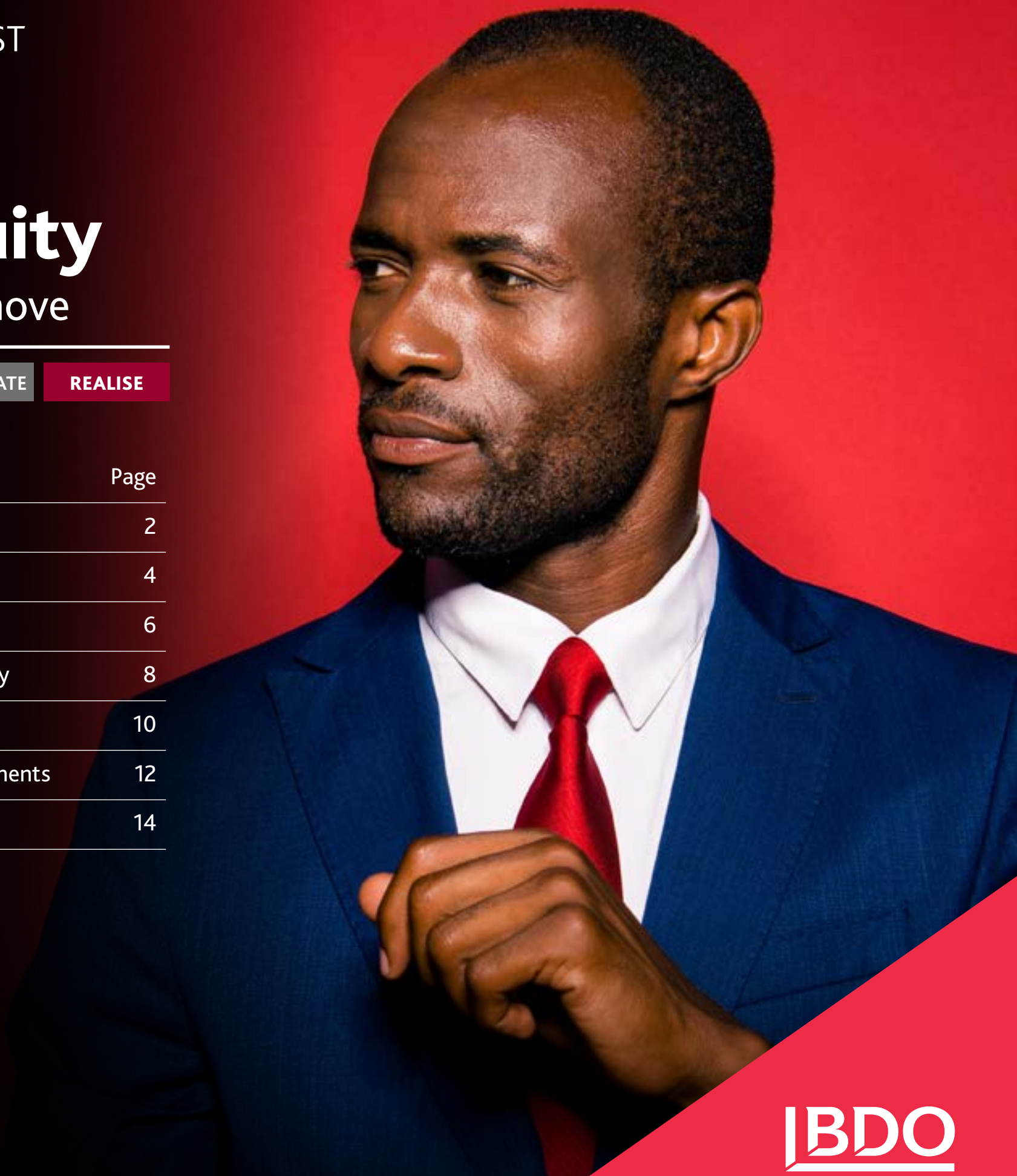


Private Equity

Knowing the next move

- DEMYSTIFY
- NAVIGATE
- ACCELERATE
- REALISE

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BDO – Realise

Private Equity investment offers ambitious businesses and management teams the potential to achieve accelerated growth over a relatively short time frame. Handled in the right way, it enables businesses to take advantage of market opportunities that can rapidly increase their value.

BDO has created this programme to support management teams in understanding the world of Private Equity. We help our clients make informed decisions, maintain stakeholder alignment and achieve a positive outcome at the end of the Private Equity ownership cycle.

Following on from Demystify, Navigate and Accelerate, this chapter – Realise – considers how the exit process works and why our clients trust us to assist them in delivering the best possible return.

The process of realising an investment commences well before the final transaction. A successful exit from Private Equity requires early planning to maximise value and minimise risk. The three key stages are:

- ▶ Making the decision to sell
- ▶ Preparing the business and identifying the right buyer community
- ▶ Managing the deal process

As a PE investee company it is important to recognise that the business is always for sale, it is always in the shop window. This means that you must quickly be ready to sell if the right opportunity presents itself.

The ramifications of this are explored in this publication in more detail.

BDO is passionate about helping our clients, entrepreneurially-spirited and ambitious

management teams. Our highly motivated advisors deliver pragmatic, sector based advice.

We build durable relationships throughout a business' journey. We communicate openly and frequently and we like to share and collaborate. We act with integrity and work with a sense of care but we are also curious; this is how we do business.

The BDO Way

Matching scale with agility

- ▶ Business positioning - the right solution for each and every client. One size does not fit all
- ▶ Familiarity with the entrepreneur's mindset
- ▶ A partner by your side developing and selling your story
- ▶ Market presence - wide reaching, well-established national and international network

The BDO difference: Integrated advice & service aligned to your needs



Launching your formal sales process

Private Equity ownership has a defined start date and may well be characterised by an anticipated hold period. However, management teams face numerous issues and challenges leading up to and during the sale process. The capital event that marks the end of a Private Equity investment should be executed in a planned, well thought-through and precise way to maximise value and minimise risk. It is never too early to plan.

When is it time to sell?

The ultimate goal of Private Equity is to realise a superior return to its funders compared to other investment opportunities (stock market, bonds etc.). Therefore a PE portfolio company will be “always for sale”. Hold periods vary, typically between three to five years, and therefore an exit is a natural part of the evolution of every PE transaction. That exit may be planned, but it may also be a response to events in the market.

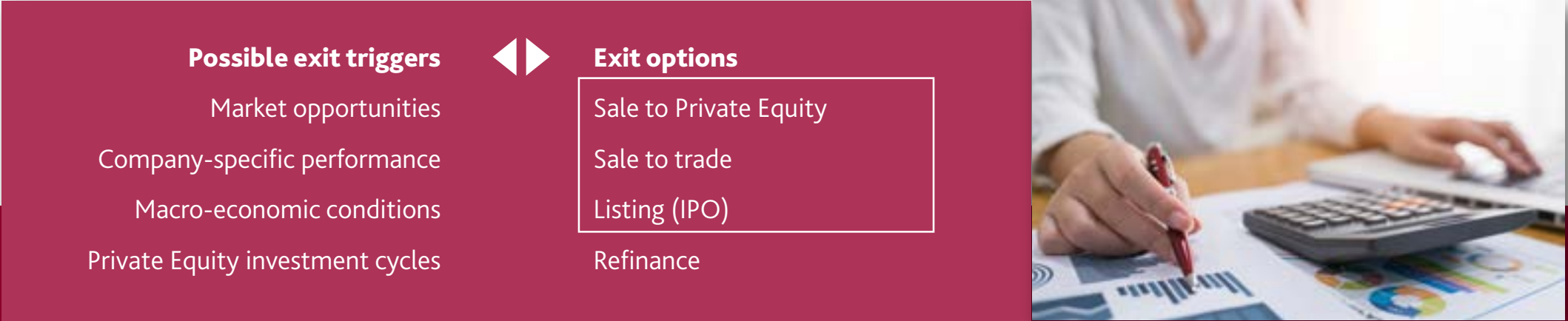
In the run up to an exit, it's hugely important that all stakeholders are aligned in their ambitions for the business and the corporate strategy sets out the road map towards that preferred exit route. We work with businesses to ensure that when the right opportunity arises – even at short notice – they are primed and ready to take advantage.

Planning the exit from the start

Achieving the greatest returns begins with ensuring that “exit readiness” is a Board agenda item from day one.

The strength of the articulated value story and preparatory work undertaken is often the difference between an exit that offers outstanding returns and one that disappoints. We help businesses stay forward-looking during the entire PE lifecycle by:

- ▶ Providing challenge around progression against the stated corporate strategy
- ▶ Identifying growth opportunities that enhance performance – both organically and through acquisitions
- ▶ Understanding the likely buyer communities and transaction options
- ▶ Assessing upon the best exit process.



Relentless focus on maximising returns and minimising risk

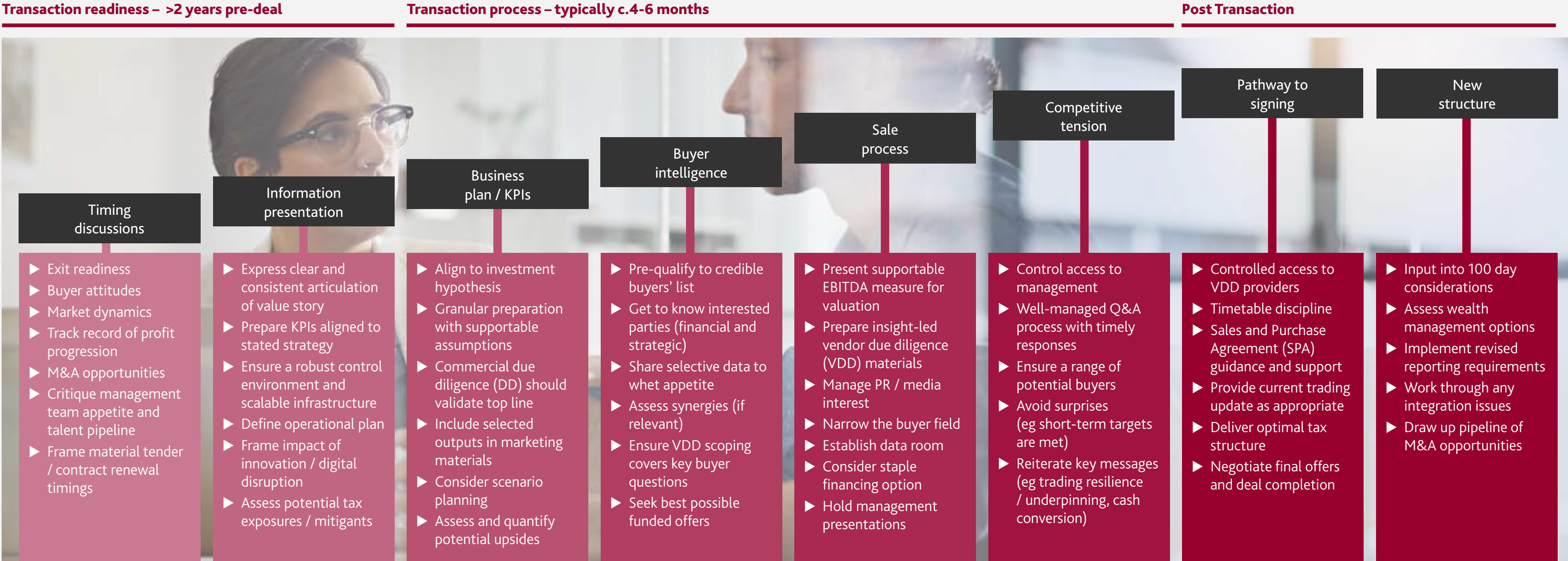


Managing the deal process

Detailed preparation and planning enhance value and delay surprises. Using a straightforward and structured approach to every transaction mitigates risks and drives value at each step of the process.

The deal process is set out below over several steps, including those that should be considered well in advance, with a high level view of matters to be considered at each stage.

BDO's Private Equity group is a highly collaborative network of more than 400 experienced advisers with deep sector and industry knowledge. This practical, real-world team has a profound understanding of the Private Equity industry, particularly in the mid-market. Our people can configure and tailor these steps to meet your needs at every level, interacting with funds, advising on deals and working closely with portfolio companies to help them realise their goals.



Identifying the right buyer community

An early assessment of the potential buyer universe helps management teams and the Private Equity investor determine the exit options and the investment thesis that will drive the greatest competitive tension.

Broadly speaking, buyers come from two main communities: strategic (trade) or financial (investors). Strategic buyers are often competitors, suppliers, or customers who are looking to gain market share or access to new markets. Financial buyers, such as another Private Equity house who will fund a secondary buyout, are more focused on realising a return on investment. As such, the way that businesses are evaluated, valued and marketed needs to be aligned to their respective motivations.

Alternatively the company's shares could be sold, either a full or partial divestment, to the public markets through an Initial Public Offering (IPO). Listing of shares is subject to strict regulatory requirements and restrictions which need to be planned and documented throughout the Private Equity lifecycle.

Factors that should be considered when identifying potential buyers include:

- ▶ Is there a ready made group of strategic buyers looking for opportunities?
- ▶ Is there another equity story that can be defined?
- ▶ What are management's intentions?
- ▶ What is the envisaged debt capacity of the business?
- ▶ Would the capital market value the business or fuel the growth more efficiently?

What is a potential buyer looking for?

- ✓ Growth in market share
- ✓ Access to new products or markets
- ✓ Access to IP, technology or talent
- ✓ Forward looking revenue visibility
- ✓ Operational potential
- ✓ Profit resilience.

The right information for the right outcome

By identifying and planning a clear exit strategy, businesses can demonstrate a strong track record in accurately reporting the necessary information and supporting the areas with perceived growth potential.

A "dual track" represents where businesses conduct an auction or other sale process concurrently with filing for an IPO. An IPO would typically require fuller financial reporting procedures but in some instances require less granular commentary around trading drivers.

Information requirements

The depth of information requirements typically varies depending on the type of exit transaction planned.

LOW HIGH

Sale to Private Equity

Sale to trade

Listing (IPO)

Refinance

Dual track (a combination)

Case study

Agilitas IT Solutions

Agilitas is a leading provider of global technology solutions to the IT channel, specialising in software enabled “Inventory as a Service”. It is a mission critical partner for its clients across the IT channel from OEMs to managed service providers, operating in over 65 countries worldwide.

The business was initially backed by NVM Private Equity in 2014, with the investment fuelling Agilitas’ growth plans nationally and internationally. Through extension of service capability and increase of geographical foot print, the business delivered double digit growth and margin enhancement over the course of NVM’s investment. In 2020, the time was right for NVM to realise the value created and find a new partner for management to execute the next phase of growth.

BDO was engaged to run a full sell-side process, working closely with management and NVM from the outset to prepare the company for sale. The team quickly developed its understanding of a complex business, utilising its expertise in the IT channel to position value drivers, overcome key commercial issues and articulate the growth story appropriately. BDO’s established relationships within the UK and International PE mid-market ensured a short list of credible investors to deliver a highly efficient and competitive process.

The result was an incredibly successful outcome for all stakeholders. NVM exited in full realising an 8.4x return and management secured a new investment partner in Perwyn Private Equity with the requisite resource to accelerate the growth plan and execute a number of transformational opportunities.



Private Equity for all-market environments

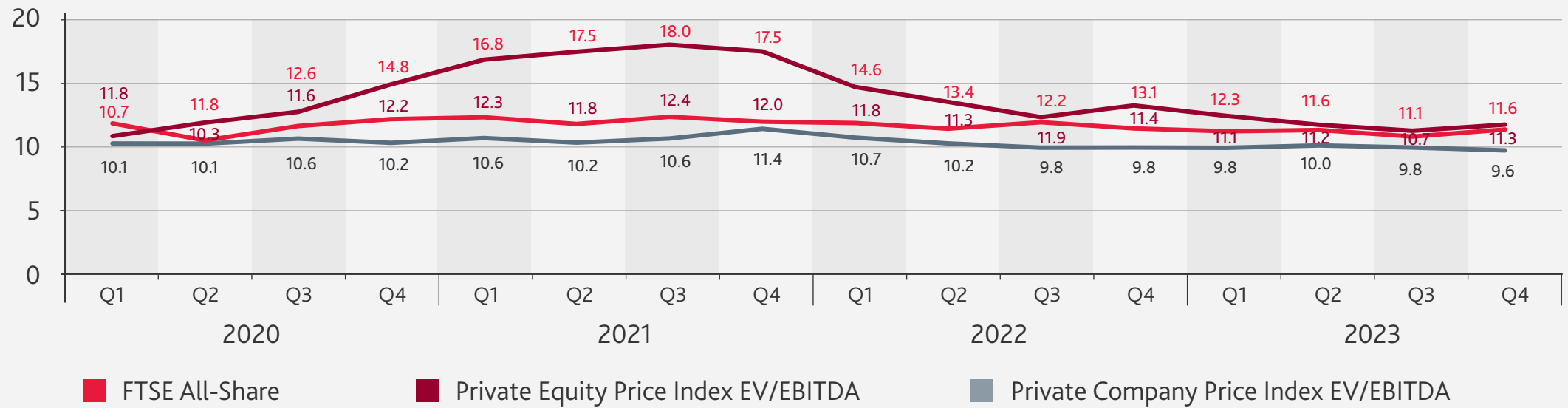


2021 saw the strongest year for deals since 2008 with 2,782 completions. A very strong recovery from activity levels in 2020, a rebound of 42% which was reflected equally across trade and PE transactions. In 2022, deal volumes increased steadily throughout the year, with a slight dip in PE activity in Q4 (106 in Q3). The overall picture for 2023 deal volume was remarkably like 2022, with only a 0.4% difference in activity. There were 112 private equity deals in Q4, a rise of 23% from the 91 deals seen in Q3. Private equity contributed to 18% of activity, the highest proportion since Q1 2021. There is still a lot of PE money in the system; with new funds being created, we can only expect to see more deals.

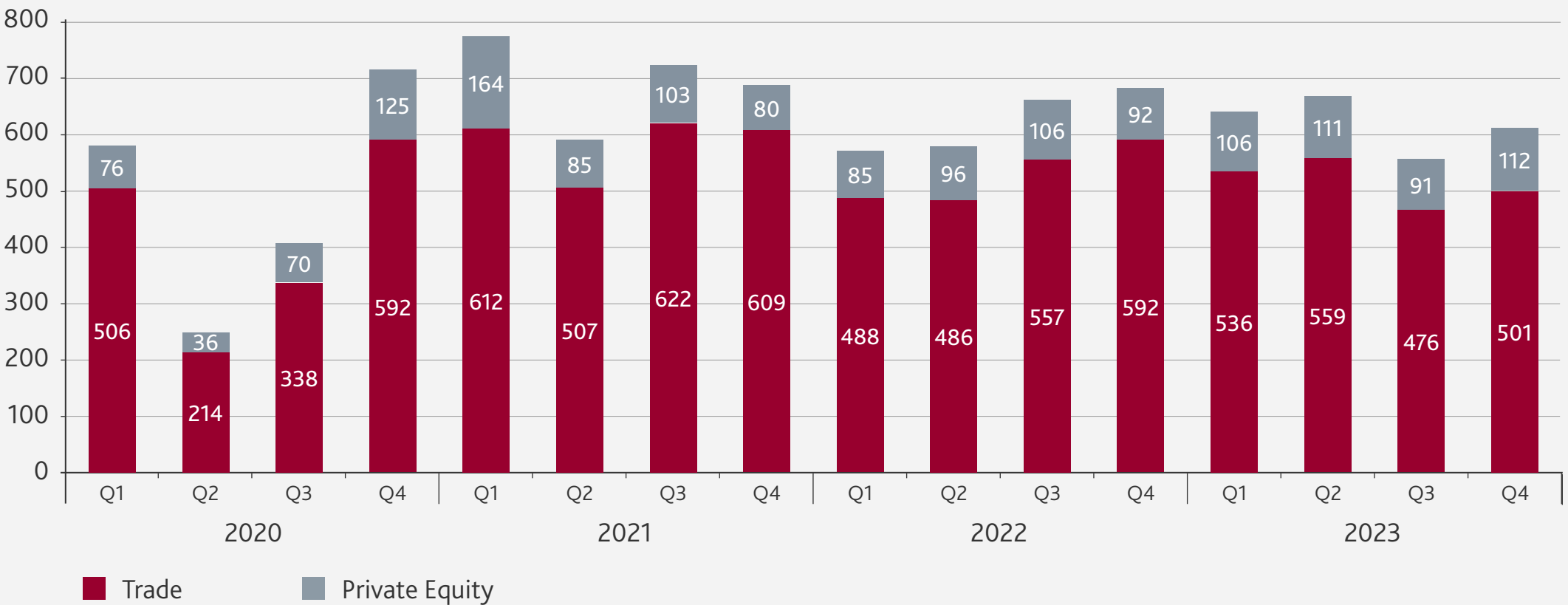
BDO's Private Company Price Index (PCPI), which tracks the volume of deals completed by quarter, demonstrates ongoing resilience in the M&A market. In addition, the Private Equity Price Index (PEPI), which represents the multiples paid by Private Equity buyers, remains strong reflecting the high levels of competition for quality businesses.

The combination of Private Equity funding levels, low interest rates, the relative weakness of sterling, liquid debt markets and cash rich corporates means that the number of buyers exceeds the number of attractive acquisition opportunities. We help our clients attract higher multiples by cutting through the complexity and making their business stand out for the right buyers.

PCPI v Private Equity Q1 2020 – Q4 2023



Q1 2020 to Q4 2023 volume of deals completed



Contact us



Contact **JAMIE AUSTIN** on +44(0)77 7192 8208 for more information.
We look forward to meeting you and learning about your business.

We want to hear from you

Managing a capital event alongside Private Equity requires early preparation, informed viewpoints and a focused management team. Whatever your personal goals and corporate strategy, we look forward to supporting you in achieving success.

Definitions in this document have been sourced from industry bodies BVCA and ICAEW ('A Guide to Private Equity'; 'Private Equity Demystified').



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