UK Private Equity mark will outperform it's last financial year - says business expert

Submitted by: Nick Owens T/A WTS MEDIA
Thursday, 4 May 2023

“Why I believe the UK Private Equity market will outperform its last financial year.”

LONDON’S private equity firms will play a key role in aiding the economic recovery and turbocharging growth in the second half of 2023, an entrepreneur and business leader has said.
Matthew Hayes, Managing Director of Champions UK Plc, said he expects investment to rebound.
He said: “Things were never supposed to be this way. Investors entered 2022 on a high. Public markets had been riding a tech boom and the US, in particular, had seen a record period for new initial public offerings in 2021. Within private equity, investment activity breached $1 trillion for the first time.
And as many as 93 percent of buyout and venture capital fund managers were expecting 2022 deal activity to at least keep pace with the previous year. Yet, as we now know, it didn’t quite turn out that way.
Inflation and interest rate rises accelerated sharply. Russia’s invasion of Ukraine in February ‘22 resulted in a global energy shock and food price hike. And this has since led global economies to grapple with double-digit inflation for the first time in 40 years.”
Mr Hayes says there were two key factors which underpinned Private Equity’s muted performance last year.
He added: “One, investors became increasingly concerned about the endemic ‘liquidity risk’ that existed within private investments. Two, banks were increasingly more apprehensive about supplementing loans amid increasing recessionary fears. This ‘liquidity risk’ acted as a major deterrent to potential PE investment.
Beyond the UK, fundraising in Europe ended up crashing to its lowest since 2014, in terms of capital raised. As a result, PE firms have been left with a resounding surplus of $2 trillion in ‘dry powder’ available for investment - and the vast majority of this capital is expected to be filtered into the UK.”
Outlining what 2023 holds for PE performance he added: “PE investment is expected to rebound this year, creating a raft of new opportunities for businesses looking to scale and grow. The economy is expected to avoid a deep recession, and inflation could be halved by the end of the year.
“However, rising interest rates will reduce the internal rate of return (IRR), due to the inverse correlation which exists between the two. I fear this in turn may continue to serve as a slight hindrance to PE investment, as firms continue to fund takeovers through minimal capital.
“The ability of PE firms to inject capital within these businesses is also made less burdensome by a plethora of recent UK government implemented legislation. This legislation includes various tax incentives, like the ‘super-deduction scheme’, which enables companies to claim 130% of the cost of qualifying capital investments as a tax deduction.
“That’s one reason why I believe the UK PE market will likely outperform its last financial year. Investments and exits may be more muted through 2023, but there will be attractive buying opportunities for distressed investing specialists and for firms seeking to grow portfolio companies through add-ons.

“After a volatile 2022, the remainder of this year will continue to offer both challenges and opportunities to private market investors. And if PE firms can reduce the liquidity risk of investment through illiquid assets, I’m convinced it could fuel a vast amount of capital within the industry.”
Mr Hayes is managing director of Champions, a strategy-led growth and implementation partner for

businesses with market leading expertise across strategy, digital, communications, creative and talent. It works with businesses in a state of transition, enabling them to maximise their capital valuation through improved EBITDA and reduced waste.

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