

2019-2022

# Private equity deals in London & East Anglia

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# Introduction

London and East Anglia are two regions of great interest to the Private Equity investment community for very different reasons. London has been an economic powerhouse for centuries and hosts a fantastic array of established and emerging industries that attract significant capital. East Anglia on the other hand has evolved to now be a strong home to businesses in bio sciences, technology, agriculture, energy, engineering and manufacturing sectors.

Our team, of around 350 people across both regions, have seen these regions grow over our 80+ year history. The last 3 years have been particularly unique and so we decided to evaluate the current state of Private Equity investment into medium sized business in both regions.

We wanted to show readers what sectors and levels of profitability were really attractive to investors today, what the balance of deal types had been during the Covid era and how deal volumes had changed.

The mid-market private equity space is one we understand very well through our extensive experience in raising funds, conducting financial and tax due diligence, providing accounting and auditing services, helping investors and companies structure deals and providing tax advice.

We would be delighted to speak with readers who want to find out more.

**Chand Chudasama**  
Strategic Corporate Finance Partner  
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## The focus of this study:

- Private companies in London & East Anglia where private equity deal have taken place between Q1 2019/20 and Q1 2022/23.
- Where the target companies had a disclosed EBITDA of £0.5m to £20m.
- Note for some sections the 2022 figure is in some cases very low or has been omitted as there was insufficient data in the sample as we are still towards the start of the fiscal year for 2022.
- The sources used for this study include Pitchbook, Experian Market IQ and Mark to Market.

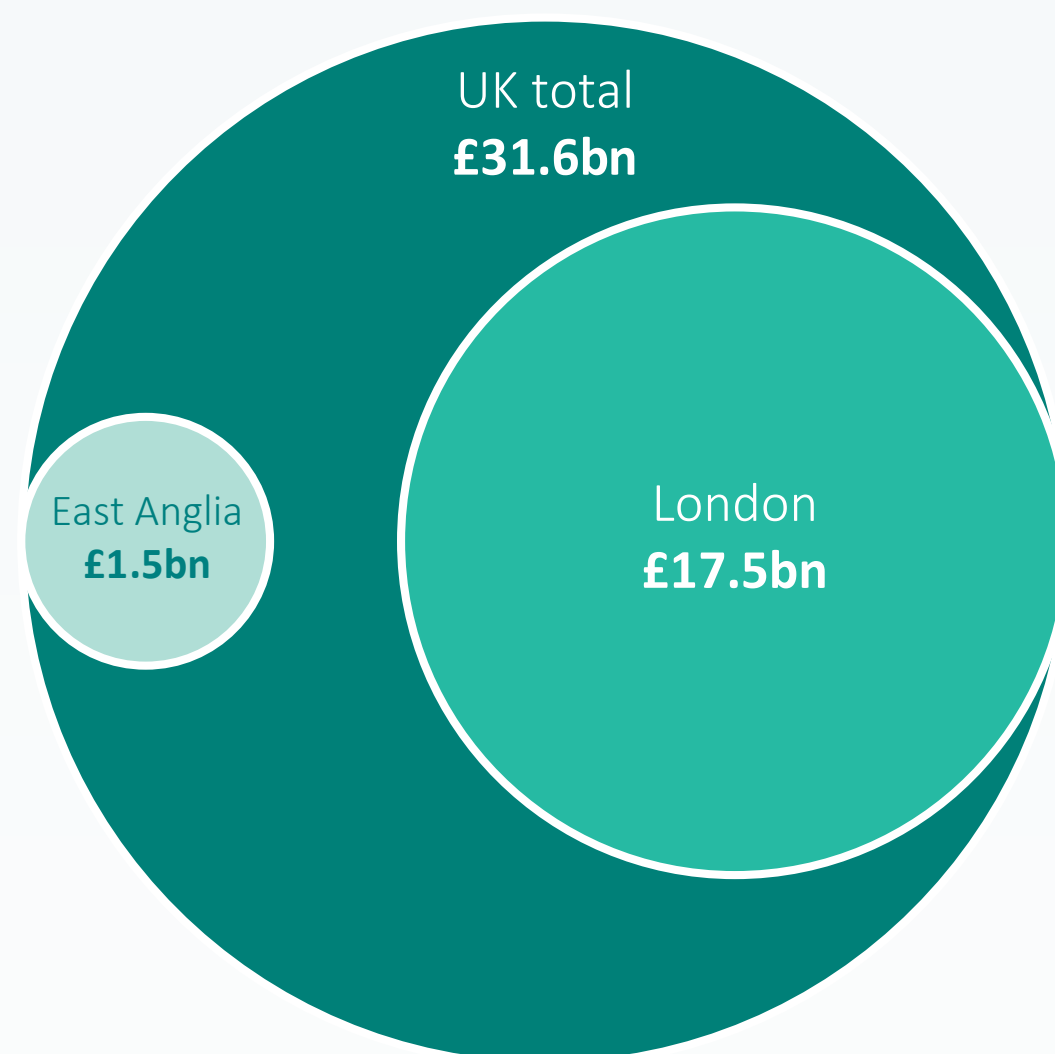
# Methodology

- The purpose of this research is to examine private equity deals for private companies based in London and East Anglia with a Small-Medium market capitalisation and EBITDA figures ranging between £500k - £20m within the FY 2019/20 - Q1 2022/23.
- Using Companies House data and a variety of tools we have access to such as Pitchbook and Mergermarket we were able to access data for 346 companies that have successfully accessed PE capital invested and meet the conditions set out above.
- To ensure the data was suitable for powerful insight, multiple revisions were made to parameters including Pre-Money valuation and EBITDA range to reach the final parameters stated above.
- Across the report, we used transaction size figures in the data as a proxy for capital invested. The omission of statistical and namely regression analysis to derive causal implications was a decision carefully made due to the small sample size which we felt would hinder the representativeness of any causal findings.
- A challenge faced during this research was the incomplete sample for the fiscal year 2022/23. To adapt to this issue in some cases we omitted 2022 figures close to zero in various subsections and acknowledged the incomplete sample in our findings within subsections featuring 2022 figures.
- We kept our market capitalisation criteria grounded towards the size most appropriate to our client base. This may lead to a disparity between our findings and alternative sources which may have selected different criteria.
- In terms of geographical focus, within this report, we decided to place a regional emphasis on the London and East Anglia regions to keep our findings relevant to our client base. As a result, this may lead to differences in findings in comparison to research with a differing geographical focus.

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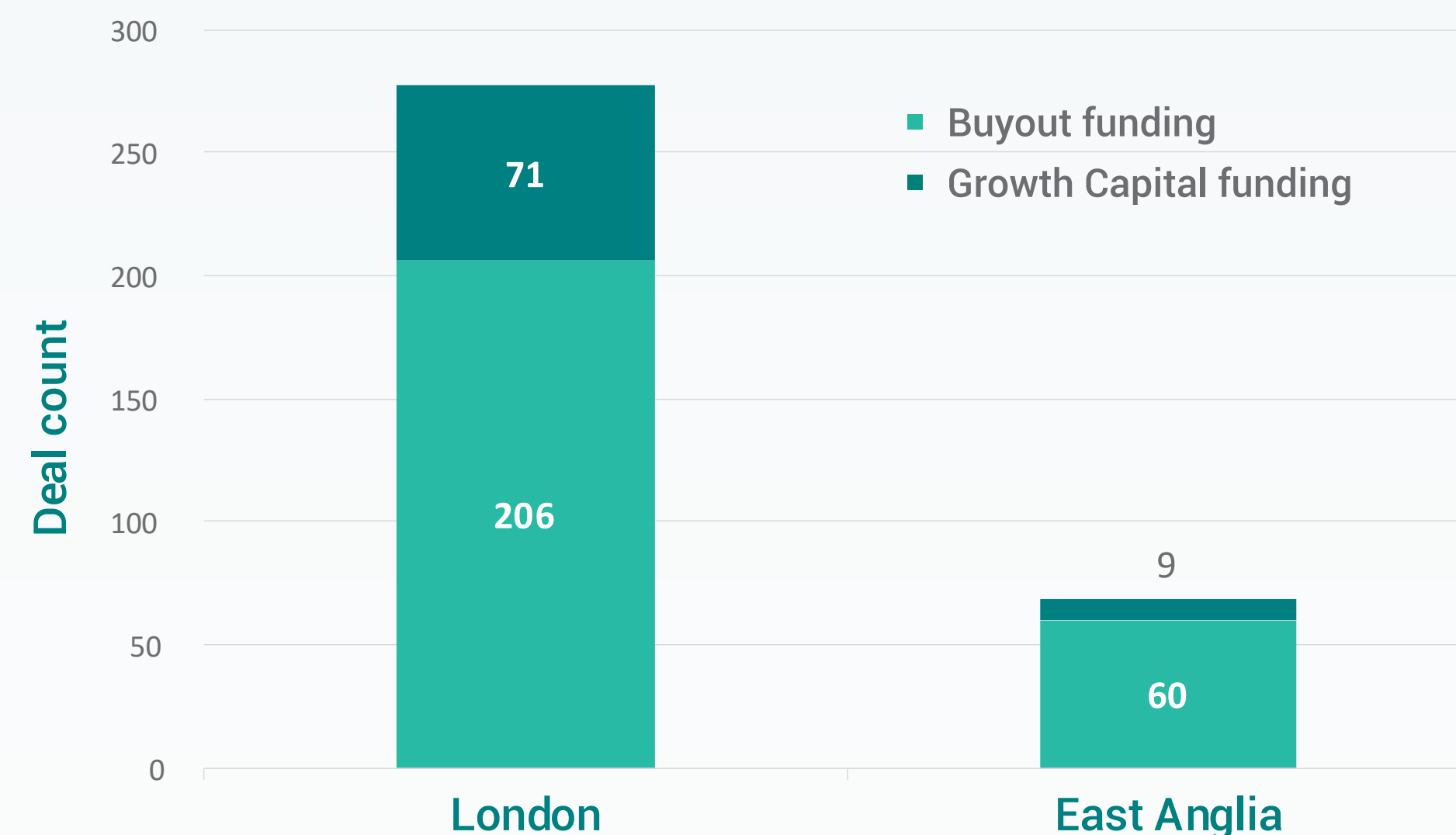
## An overview of capital invested in London and East Anglia



### Capital invested in UK businesses (FY 2019 – Q1 2022)

London and East Anglia are both vibrant innovation hubs that attract significant Private Equity (PE) Investment.

On an aggregate basis during the period spanning FY 2019 – Q1 2022, London and East Anglia had a combined total PE capital investment of £19bn into businesses in their regions. With London accounting for 55% of total PE capital invested in the UK during this period.



### Deal count & transaction type by region (FY 2019 – Q1 2022)

We can also see in the data that London attracts a strong proportion of Growth Capital investment (40% by deal count) which is substantially higher than East Anglia's (13%).

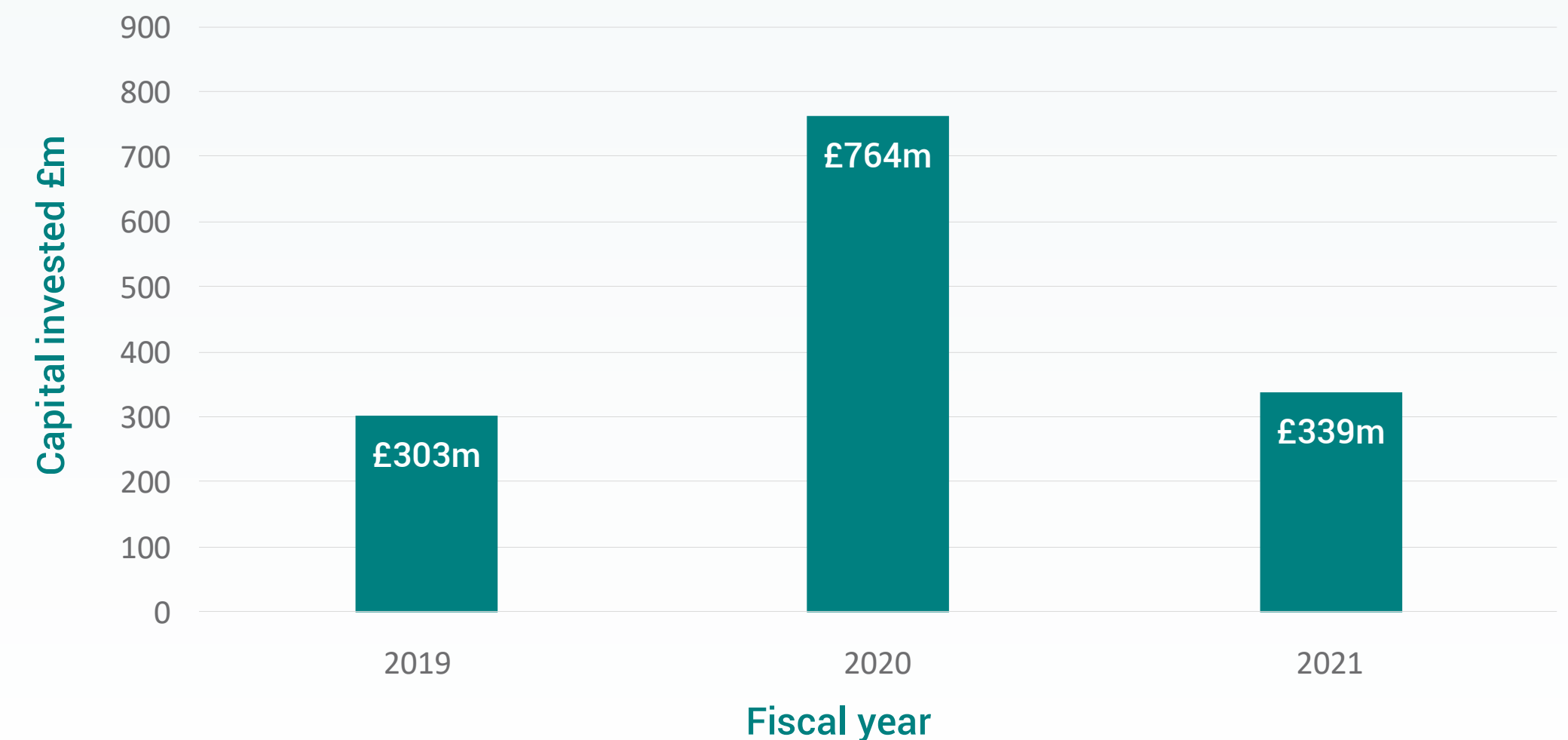
East Anglia has a growing reputation as a science and technology hub, with a significant number of University spin-outs and the development of science and research centres in Cambridge and Norwich. During the period explored here, the region has attracted renewed PE interest, e.g. with the development of regional funds such as Foresight's East of England fund.

## Capital invested annually for London and East Anglia (2019-2021)

Annual capital invested in London between FY 2019 - FY 2021 (£m)



Annual capital invested in East Anglia between FY 2019 – FY 2021 (£m)



- Capital investment in both regions has declined since 2020 highs. This may simply be a normalisation to 2019 numbers and so, on a 3 year rolling average basis, the data is smoother.
- According to Pitchbook, as at Q1 2022 there was still £78bn of disclosed dry powder (cash to invest) amongst the top 10 most active investors in both regions.
- The underlying reason for the significant increase in East Anglian investment appears to be led significantly by the estimated £499m buyout of Dotmatics by software company Insightful Science (a portfolio company of Insight Partners), completed in Q42020/21.

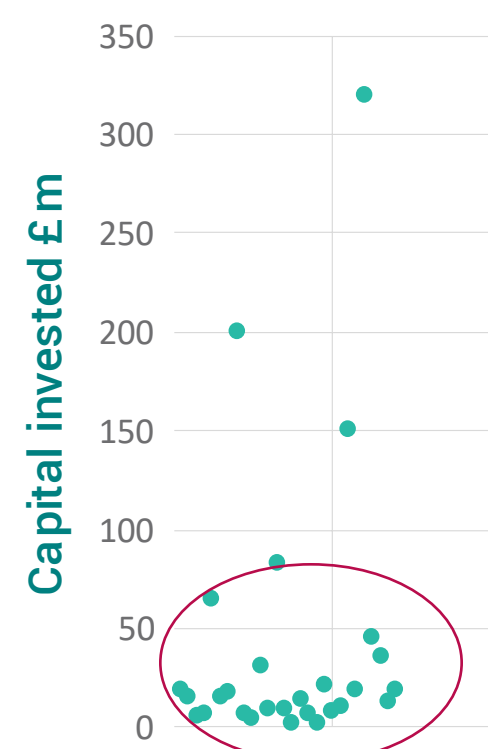
# London

EBITDA analysis

# Capital invested and deal count by EBITDA range – London region

Our focus is on businesses with an EBITDA of under £20m. What the data shows is that having an EBITDA of above £2m is important for any business in this category seeking PE funding. This is reflected through the greater level of capital invested and increased deal activity in the £2m-£10m EBITDA range. Although this trend is significant, it must be noted that the transaction size figures obtained from our sources are incomplete.

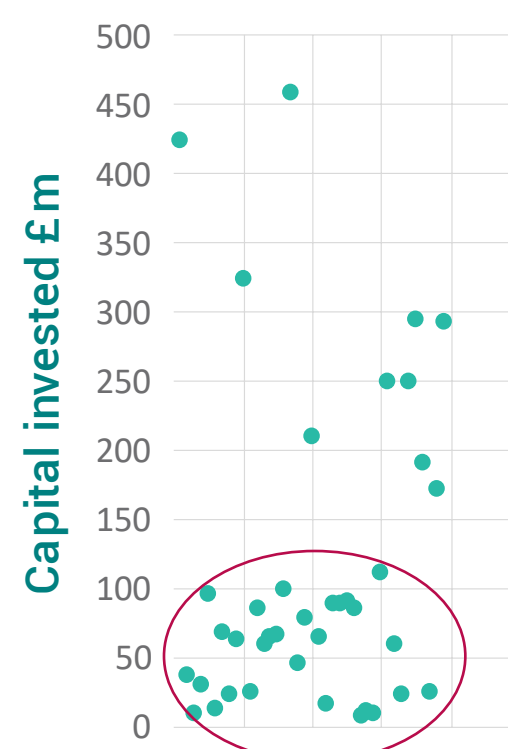
Capital invested in £0.5m - £2m EBITDA businesses, FY 2019 - Q1 2022



The cluster here is very tight, with a median investment of £13m.

This is significantly lower than the median cheque sizes for the next EBITDA range. Indicating that EBITDA of £2m+ does correlate with the size of capital investment opportunity.

Capital invested in £2m - £10m EBITDA businesses, FY 2019 - Q1 2022

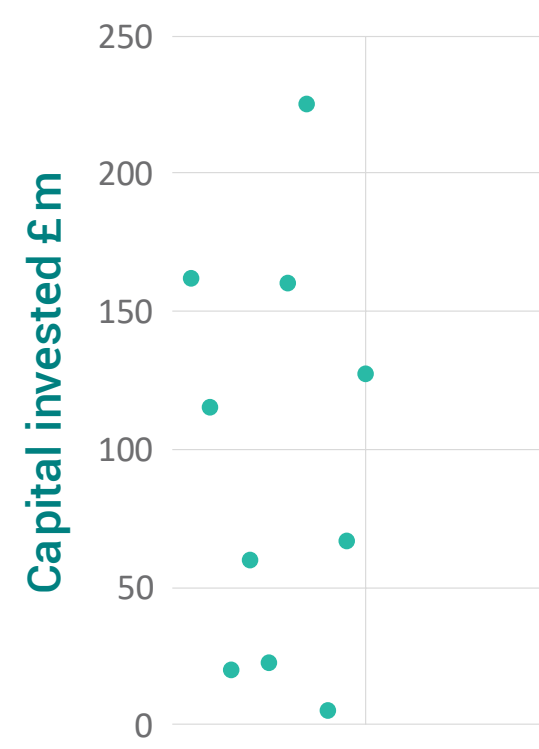


The median EBITDA in the highlighted cluster above was £3.4m.

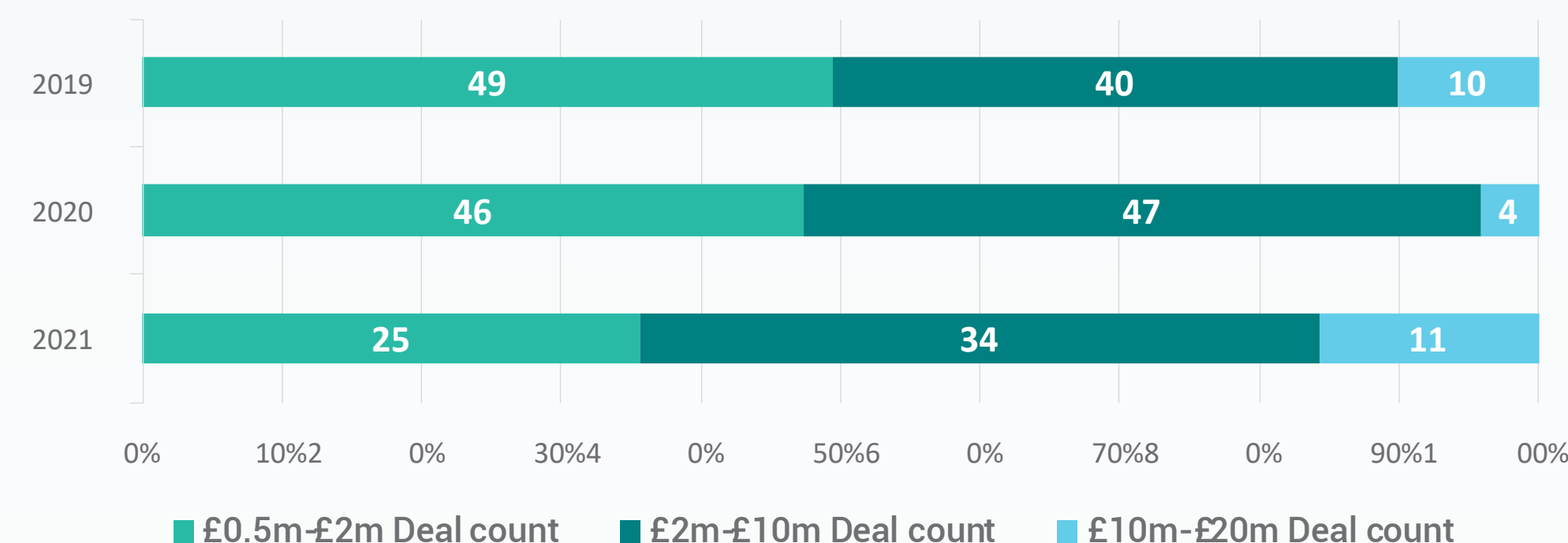
Excluding this cluster, the median cheque size range in the rest of the £2m to £10m and £10m to £20m is relatively tight at £79m and £91m.

Therefore, we conclude that once you reach a certain level of EBITDA, the correlation between profits size and cheque size starts to reduce.

Capital invested in £10m-£20m EBITDA businesses, FY 2019 - Q1 2022



Deal count by EBITDA range annually in London, FY 2019 - FY 2021

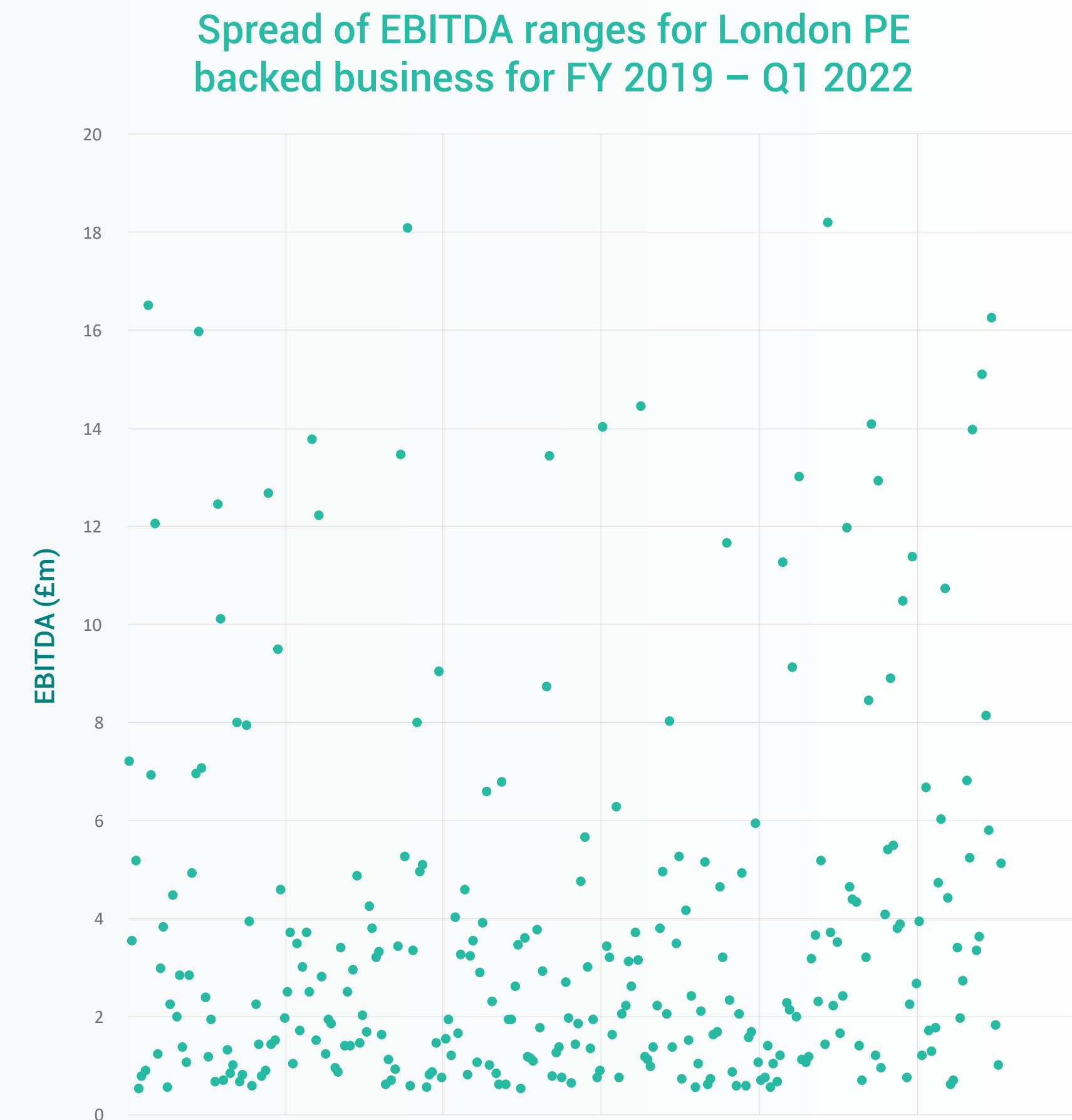




## London EBITDA performance

The chart shows that 73% of London businesses in our analysis had filed EBITDA performance, at the point of investment, of sub-£5m, and 88% had EBITDA of sub-£10m.

There are often different investors in each stage of EBITDA growth. From the data opposite, it was harder to attract investors at the beginning, with only a third of PE-backed businesses performing at an EBITDA level of £500k-£2m between 2019-22. In our experience, gaining PE interest is easier at the end but the pool of investors is smaller and the competitive dynamics different; reflected here as only 12% of PE-backed businesses had EBITDA performance of £10m-£20m.



## London EBITDA Margin benchmarks

Our data shows that the greater the overall EBITDA of the company, the higher level of profitability as a percentage of revenue.

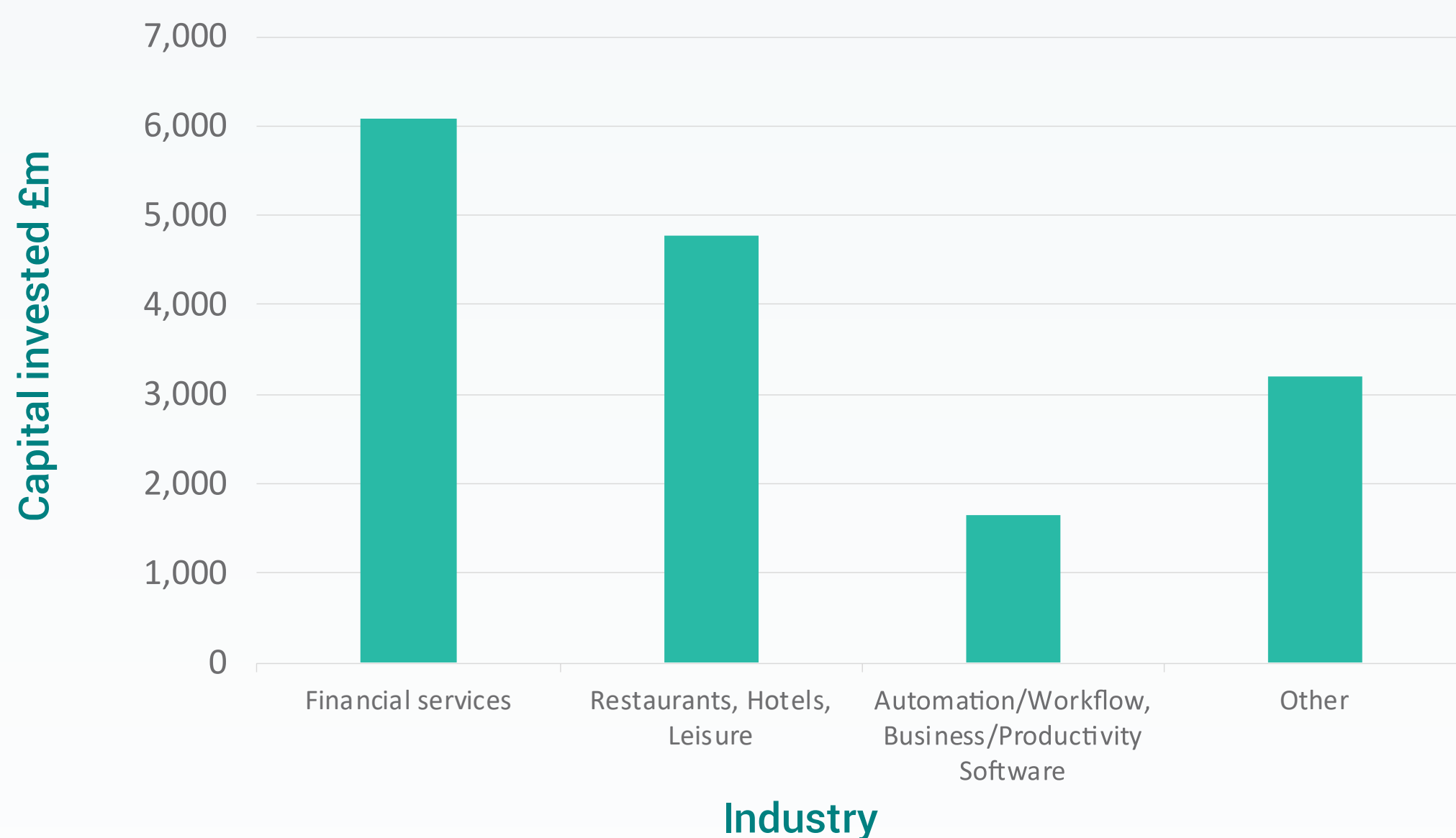
- Loss making businesses at EBITDA level seldom raise PE funding in London.
- The bigger the overall level of profit, the higher the EBITDA % with an incremental rise in median EBITDA % across profitability ranges of 14%, 17% to 22% respectively.
- These numbers are before normalisation adjustments.
- These charts indicate a powerful benchmark for businesses seeking PE funding to pursue.

**EBITDA Margin (%) for PE backed companies by EBITDA range, for deals in FY 2019 – Q1 2022**

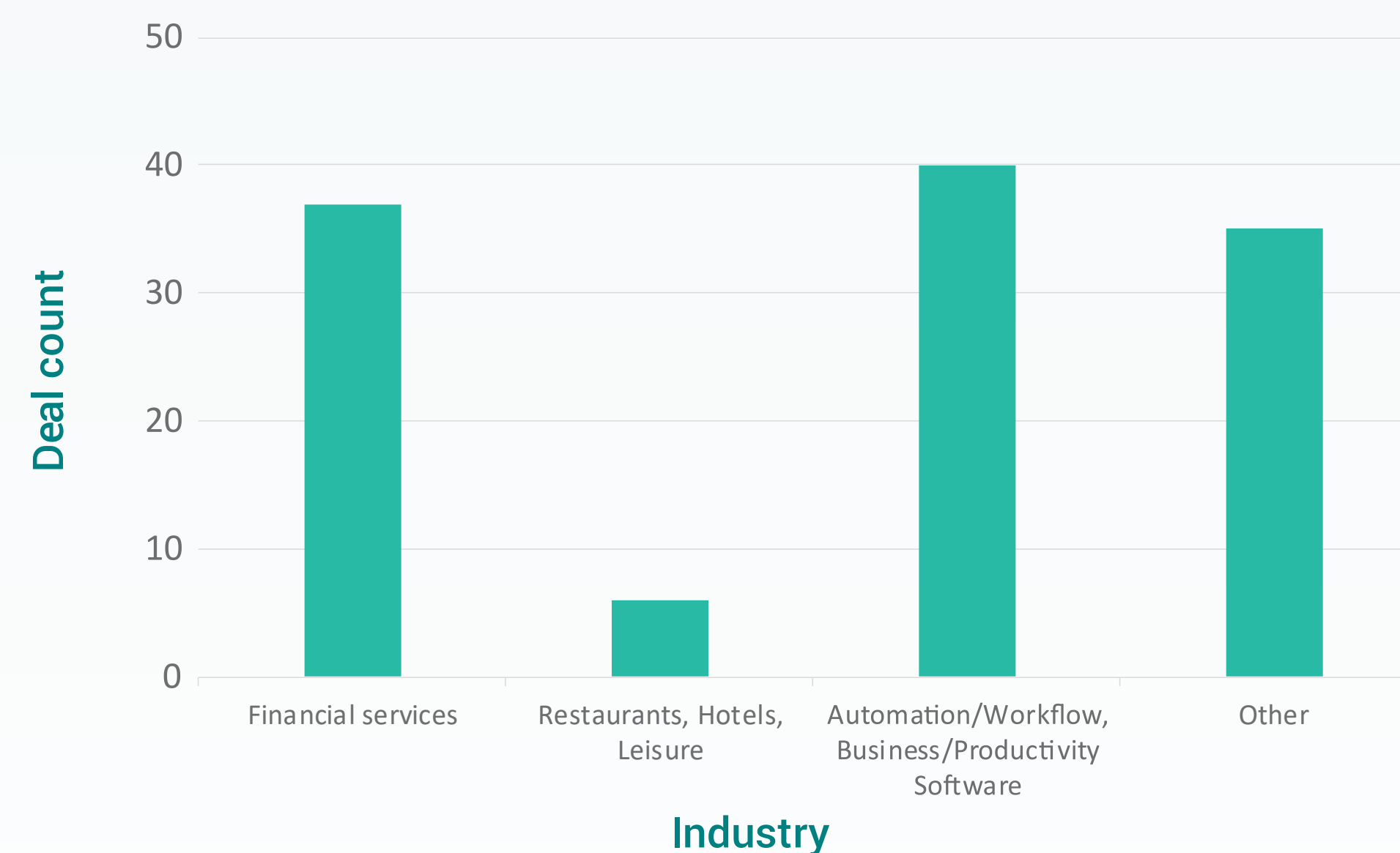


## Capital invested and deal count by industry – London region

Capital invested by industry in London, FY 2019 - Q1 2022



Deal activity by industry in London, FY 2019 - 2Q1 2022

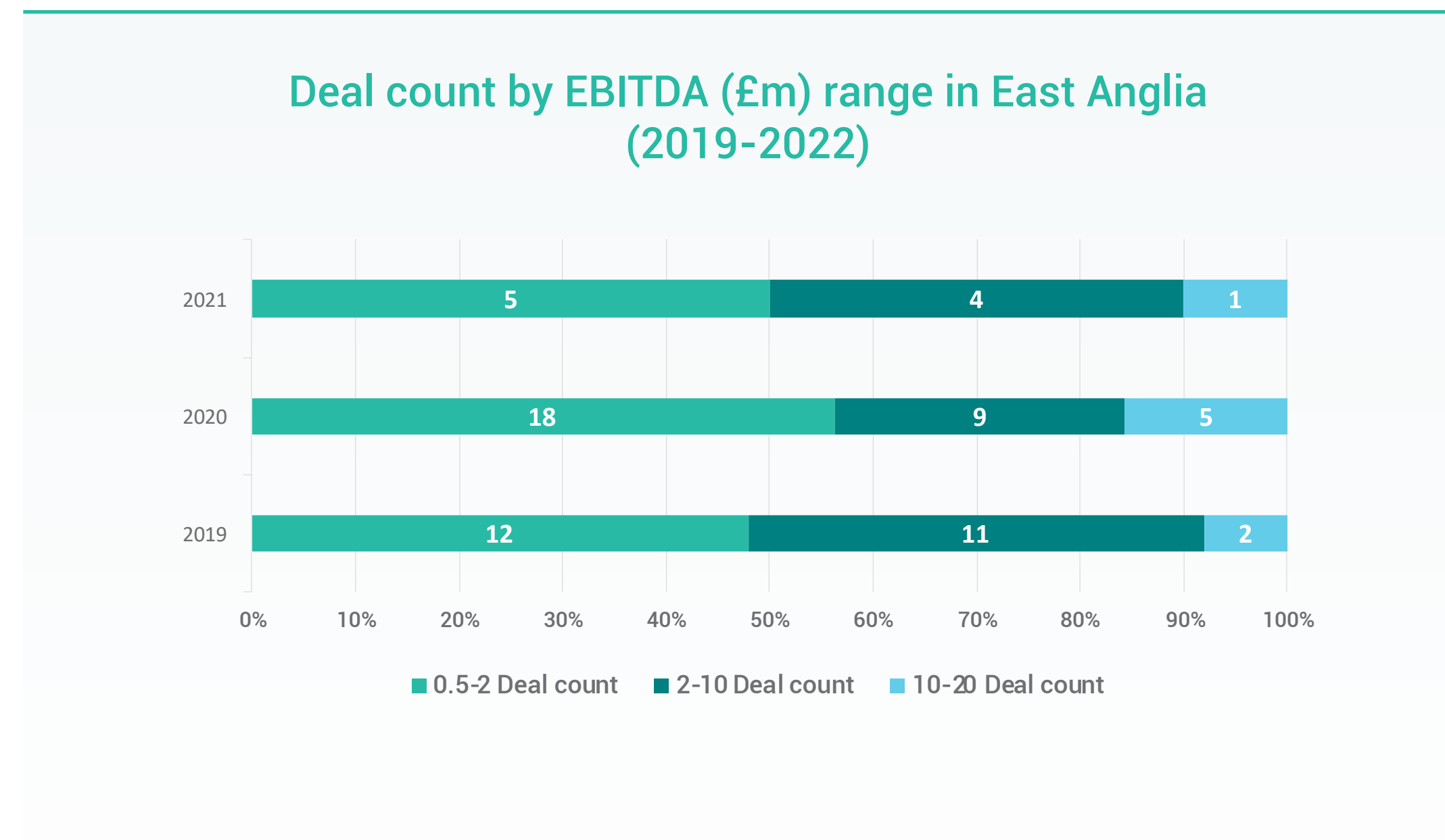
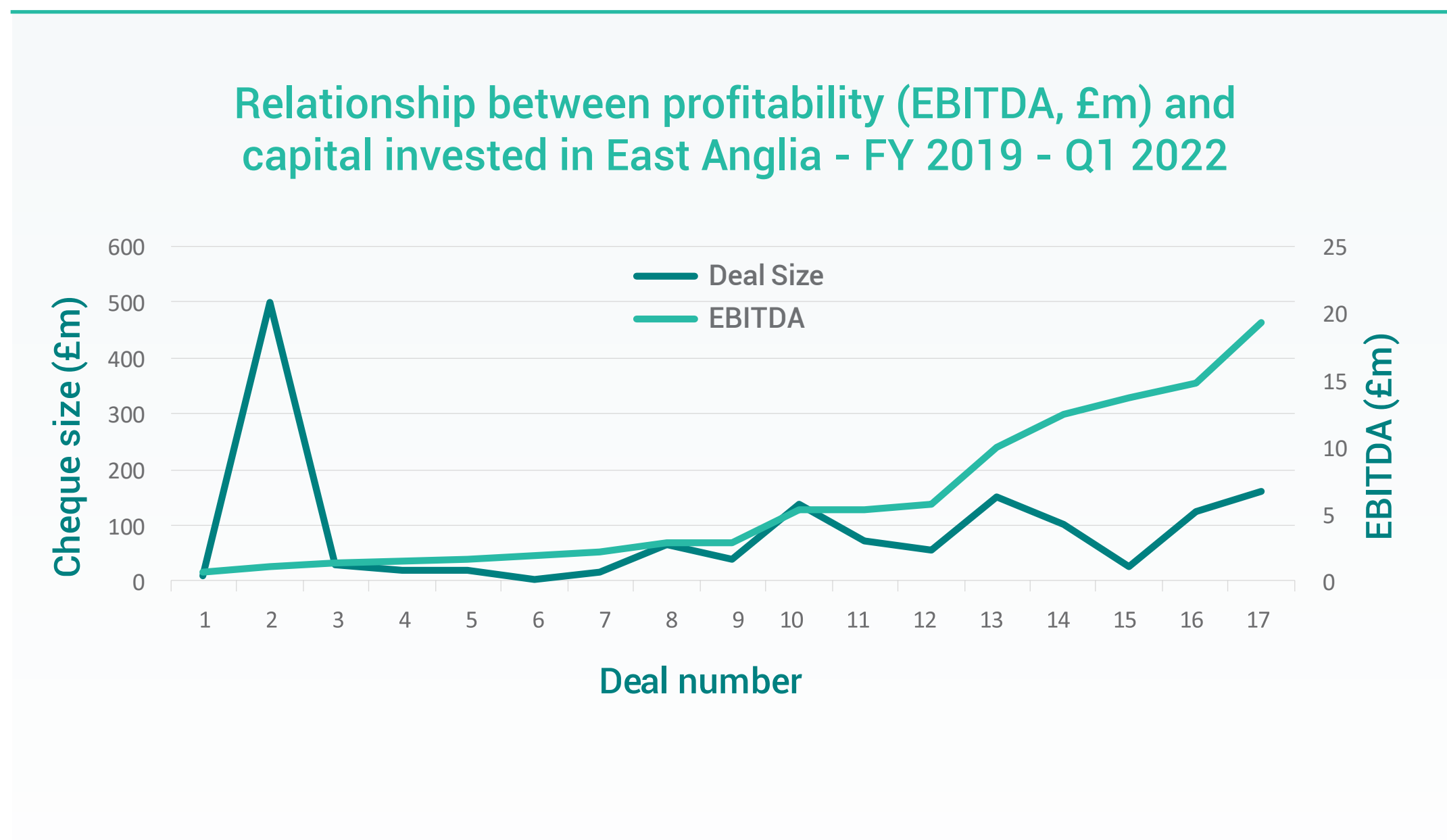


The distribution of capital invested is fairly intuitive. However, the spread of different industries within the 'other' category reflect the service led economy of the London region relative to East Anglia, which is characterised more by commercial manufacturing, equipment and wholesale products and services. Within London, IT Consulting & Outsourcing, Commercial Services, and Private Equity businesses feature highly. There is a larger concentration of smaller deals in IT consulting, while one £904m deal in Private Equity positioned it as the fourth highest industry by capital invested.

# East Anglia

EBITDA analysis

## Capital invested and deal count by EBITDA range in East Anglia



There is very low correlation (0.1) between profit growth and deal size in East Anglian businesses. Aside from the large ~£499m Dotmatics deal previously discussed, we can see from the chart on the left above that growth in EBITDA does not result in greater capital invested. Mean average cheque sizes across the £0.5m - £2m, £2m – £10m and £10m - £20m ranges are £97m, £65m and £112m respectively. This illustrates a small variance in cheque size despite larger shifts in EBITDA growth among the sample.

It should be noted that the transaction size figures obtained from our sources, including Pitchbook, Mark to Market and Experian are incomplete, therefore there is a lack of critical mass when analysing capital investment trends in this region. Therefore, the mean average is measured in this instance due to the smaller sample size.

## East Anglia EBITDA performance (2019 – 2022)

Three-quarters of PE-backed East Anglian businesses displayed filed EBITDA of sub-£5m. 88% had EBITDA of sub-£10m; displaying an identical trend to London comparables.

Conversely to the London PE-market, businesses were able to attract PE attention at an earlier stage. 50% of PE-backed businesses were performing at an EBITDA level of £500k-£2m.

In line with London figures, 12% of PE backed businesses had EBITDA performance of £10m-£20m while the same businesses accounted for 37% of total (announced) capital invested in the region. Illustrating that acquiring capital is potentially easier, but the pool of investors is smaller.

**A key takeaway here is the similarity in EBITDA spread in PE-backed businesses between two regions that experience different market dynamics and overall investment levels.**

Spread of EBITDA ranges for East Anglian PE backed business for FY 2019 - Q1 2022

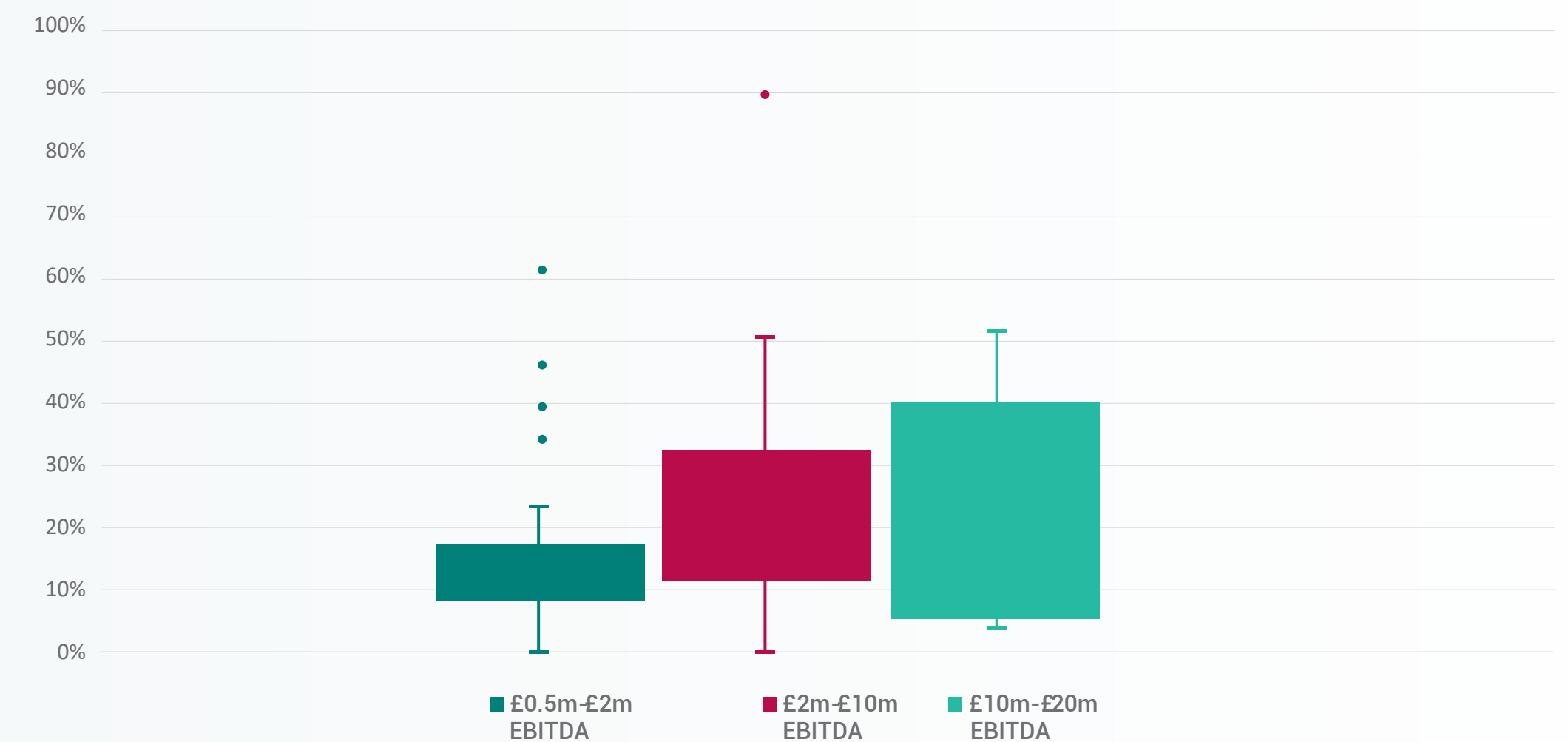


## East Anglia EBITDA Margin benchmarks

Our data shows that once a business goes above £2m EBITDA, profit as a proportion of revenue is expected to take a material step up.

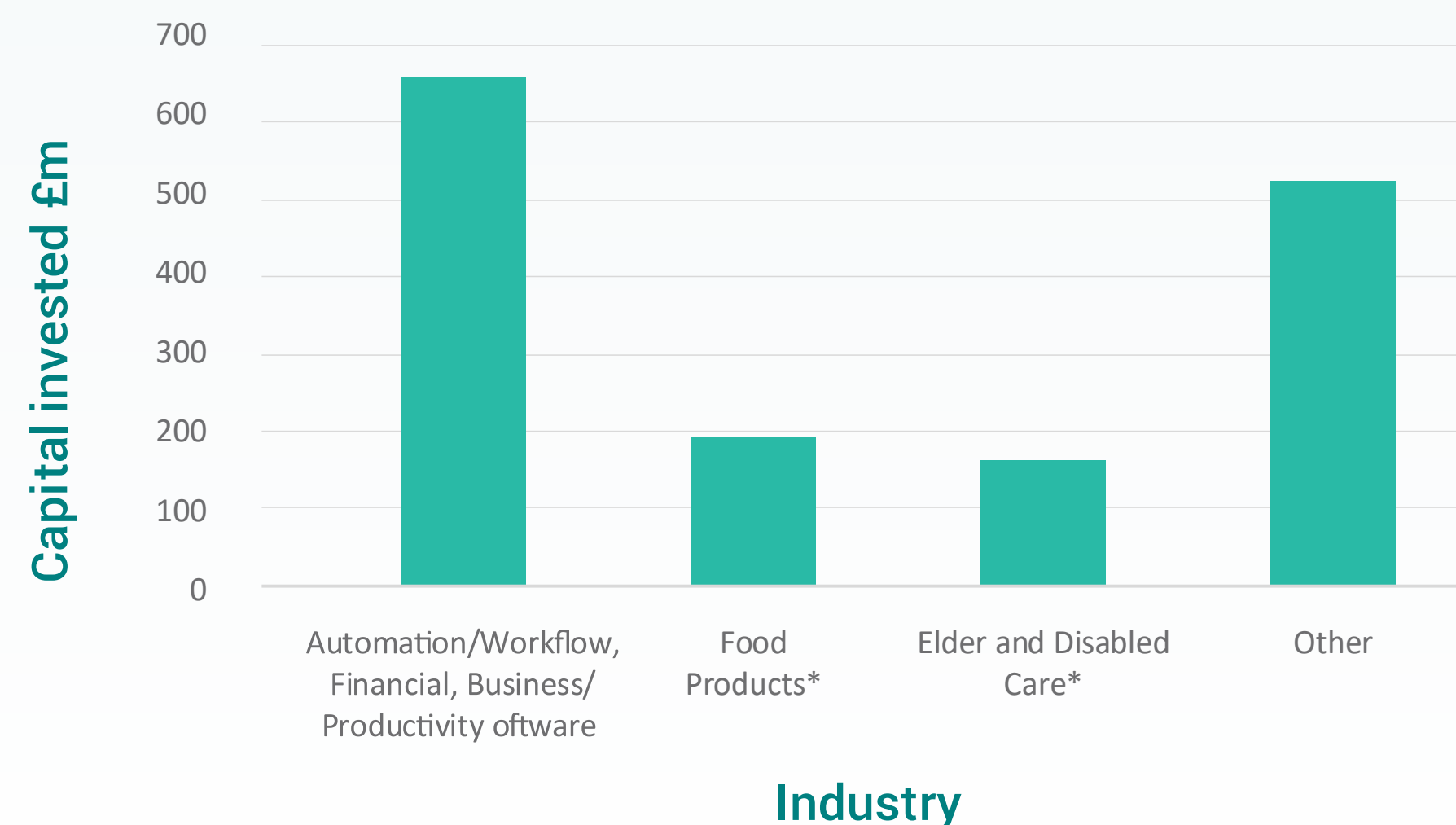
- As was observed in the London region, loss making businesses at EBITDA level seldom raise PE funding in East Anglia.
- There are broader expectations on required profitability margins for larger businesses.
- These charts indicate a powerful benchmark for £0.5m - £2m and £2m - £10m EBITDA performance businesses seeking PE funding to pursue.
- Businesses in the £2m - £10m EBITDA performance range are subject to the highest liquidity expectations, with an average EBITDA % of 25%, relative to 16% for £0.5m - £2m businesses, and 22% for larger £10m - £20m businesses.
- These numbers are before normalisation adjustments.

**EBITDA margin (%) for PE backed businesses by EBITDA range, for deals in FY 2019 – Q1 2022**

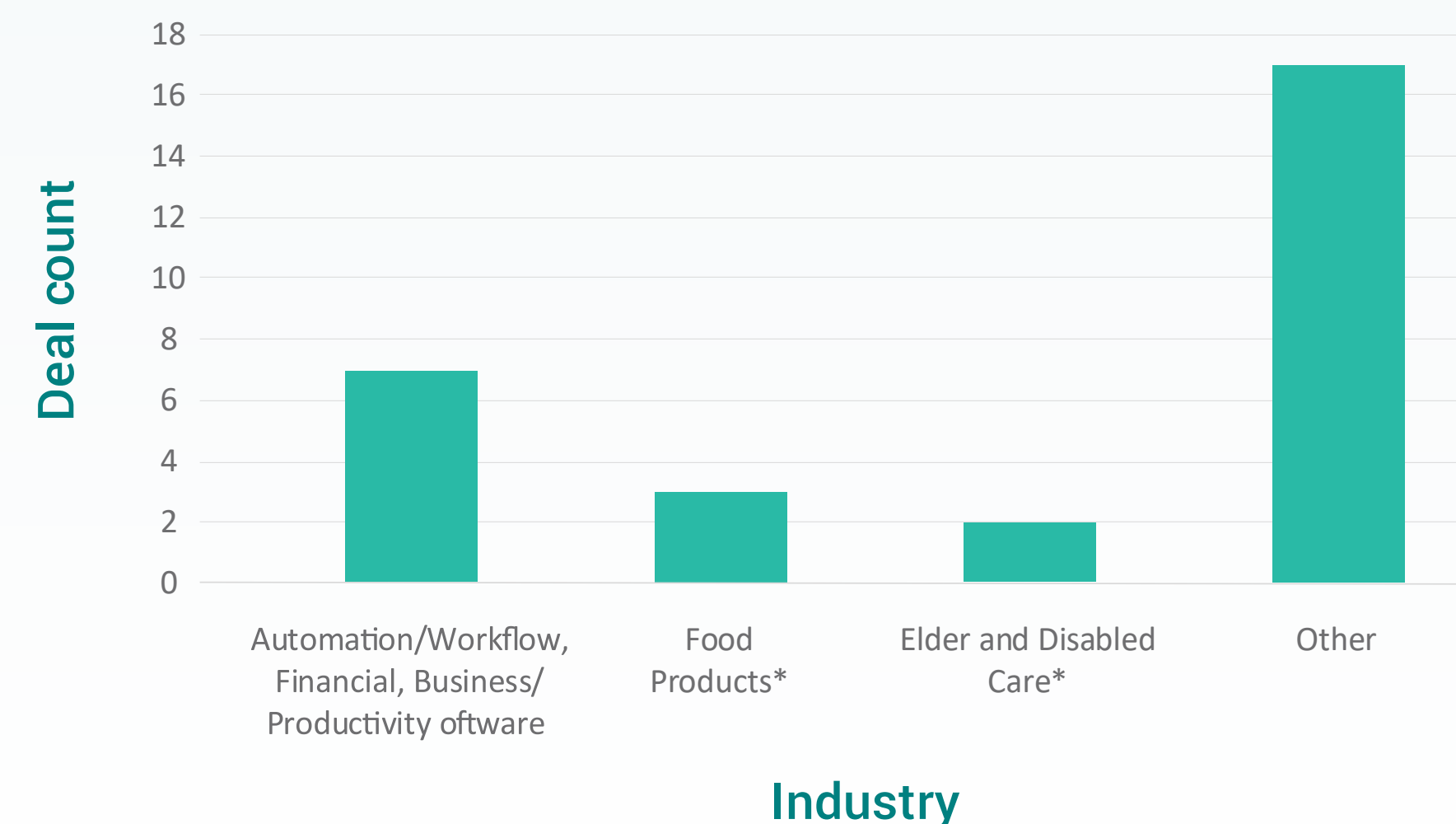


## Capital invested and deal count by industry in East Anglia

Capital invested by industry in East Anglia, FY 2019 – Q1 2022



Deal activity by industry in East Anglia, FY 2019 – Q1 2022



In contrast to the London region, we can see that East Anglian deal count figures by industry are generally consistent with their respective levels of capital investment. This indicates that there are generally no high concentrations of investment capital within a relatively low quantity of deals.

East Anglian figures reflect a different focus of investment interest and deal activity as shown through a notable interest in Food products as well as Elder & Disabled care. Investment capital for both industries is shown to be highly concentrated with £191m invested across 3 deals for Food products and £162m invested through 2 deals within Elder & Disabled care. There is a cluster of other industries that accumulate into the 'other' category; 74% of this category is made up of deals in commercial product, consumer goods, hospitality, leisure and retail businesses.

There is generally a greater focus in this region on local and regional industry investment which may sit in contrast to some larger deals in London with a more national and international focus.



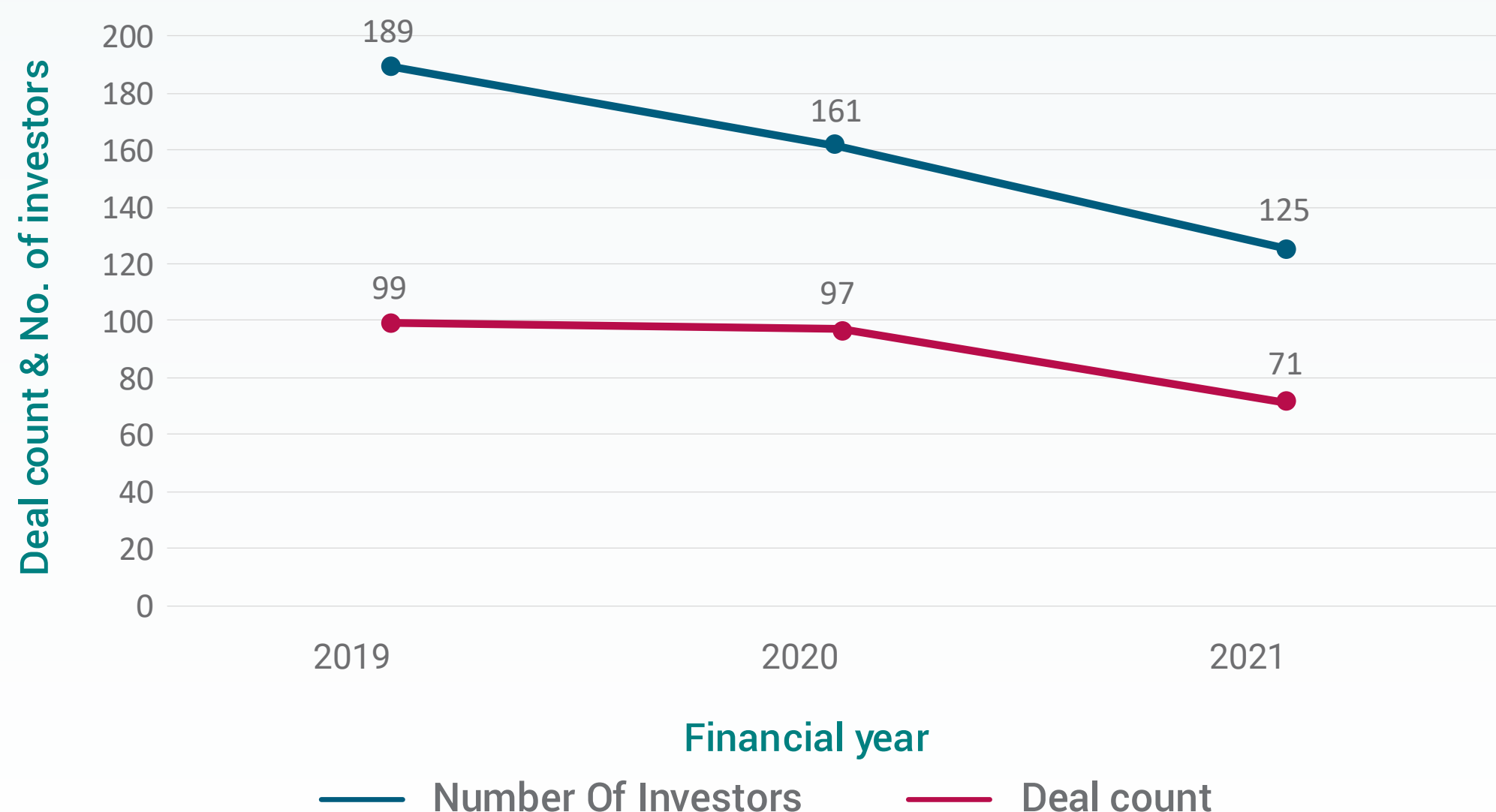
# PE investor trends

London and East Anglia

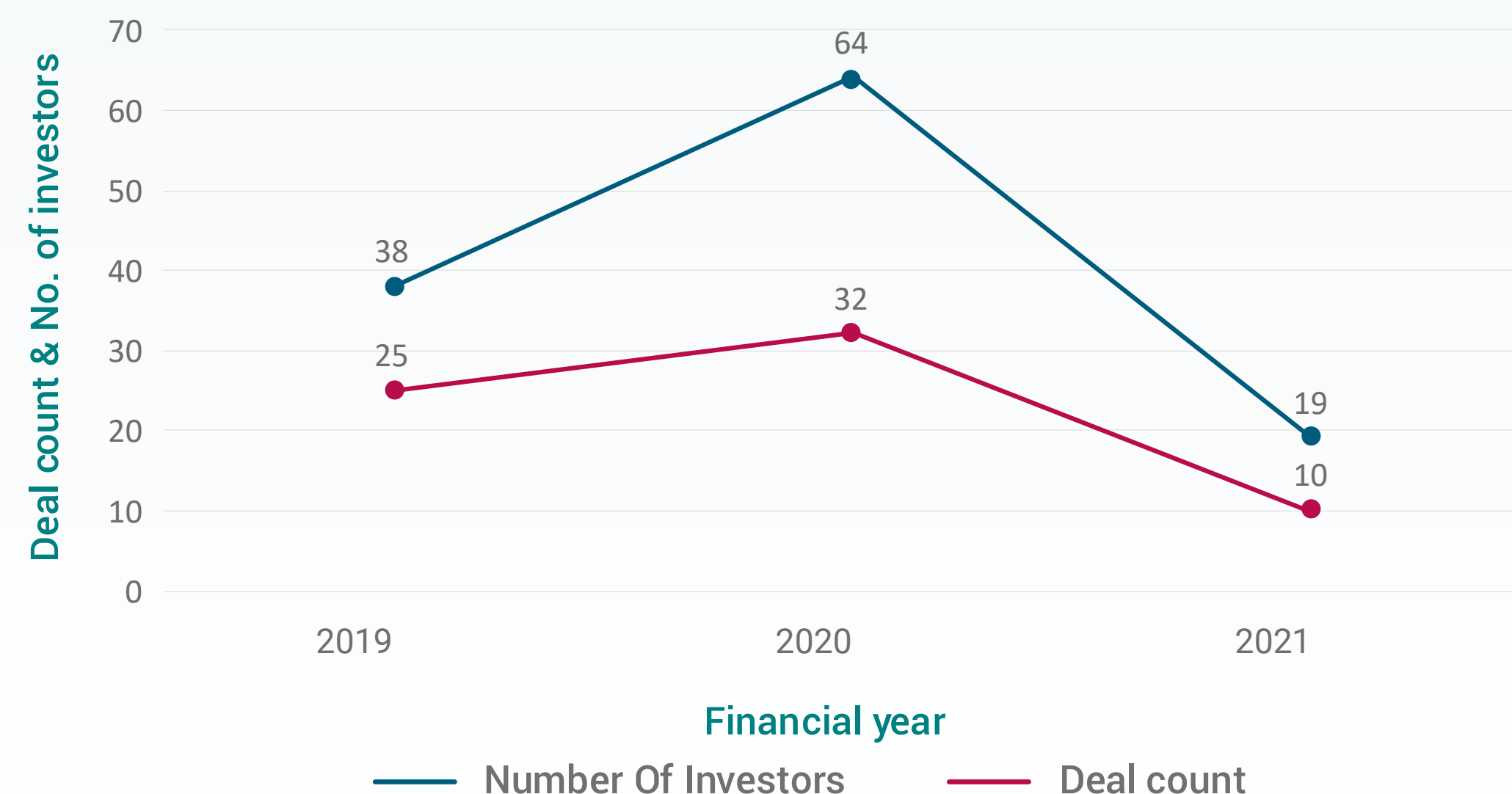


## Number of unique investors over time in London and East Anglia

Deal activity and Investor levels annually in London (FY 2019-2021)



Deal activity and Investor levels annually in East Anglia (FY 2019-2021)



- It is likely that the fluctuations in unique investors over the time period is a normalisation adjustment for the COVID-19 period.
- No investor dominated the transaction landscape in either region. While a number of investors completed multiple deals during this time in each region, the investor market was fragmented.
- This creates an interesting dynamic for investee businesses, as it broadens the pool of investors they can seek investment from. However, the relatively low deal count per investor (tied with the high quantities of dry powder among this group) means the hurdles to successfully receiving investment from any one of those investors is likely higher.

## Top investors by region

### London



### East Anglia



## Conclusions

The findings in our data have shown some fascinating trends. Both regions remain buoyant and attractive to PE across many sectors.

With the data at hand, management teams and investors should be able to benchmark profitability and reflect on the wider environment should they be considering either raising PE investment, or looking at secondary buy outs within the region.

2022 has been stronger than the data suggests; we expect this to be a time lag in the submission of data – and our data only goes up to July of 2022.

Despite the headwinds of 2023, we do expect deal activity to remain strong; we see plenty of fundamentally strong businesses in both regions, cross-sector, who are growing, generating strong cash flows and presenting all the classic attributes of an attractive target to PE.

Whilst we do expect deal structures and valuations to adjust for macro pressures, we are expecting an active 2023 on Private Equity transactions.

### Chand Chudasama

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## Key Takeaways

- ✔ Total capital invested in both regions has been in decline, however, given the buoyant 2020 with a massive 152% increase in total capital invested in East Anglia during that period, this is likely just a normalisation.
- ✔ 73% of both London and East Anglia PE-backed or acquired businesses had an EBITDA of £5m or less at the point of investment.
- ✔ The number of investors into the regions are concentrating.
- ✔ Generally, the higher a target companies £ EBITDA, the higher the expectation on the % EBITDA.
- ✔ Only 12% of PE-backed businesses in these regions had EBITDA of £10m-£20m, suggesting that competition dynamics and investor profiles at this stage differ from those in the sub-£10m EBITDA ranges.
- ✔ Despite the different market dynamics and overall investment levels, there was significant similarity in EBITDA spread in PE-backed businesses between the two regions.
- ✔ Businesses in most sectors are interesting to Private Equity in both regions.

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