CORPORATE FINANCE

BDO MID-MARKET PRIVATE EQUITY SURVEY 2010

RESEARCH METHODOLOGY

In November 2009 interviews were carried out with senior financial decision makers at 100 UK mid market companies owned by private equity with a turnover up to £250m. In the same period 50 senior managers at leading UK focused mid market private equity funds were also interviewed. The survey aimed to examine a range of relevant topics such as investment appetite, performance and funding, bolt ons, management, exits and pricing and taxation.

The survey was analysed by David Burton Associates (DBA), an independent research consultancy, with fieldwork conducted by Resource.

Comments we received from respondents are included throughout the report.

FOREWORD
PRIVATE EQUITY IN 2010

Having taken a year out, private equity managers are anxious to get back to the business of "buying to sell". The survey results show a pent up demand to invest is now being unleashed, while increasing exits and returning cash to LPs is high on the agenda for 2011 and 2012.

Management teams are telling us that they have switched stance from cost cutting strategies in 2009 to organic growth and bolt ons in 2010. Many are not happy with the management incentive plan and over a third of companies have or expect to restructure the management deal in the next 12 months. A similar proportion of PE backed companies still expect to restructure debt and currently consider themselves over leveraged.

So, private equity professionals will be very busy. Portfolio company issues will still demand a lot of time but added to this will be the pressure to complete new investments. This will stretch resources and 44 per cent say they expect to recruit and increase the size of their team.

Right now the demand for deals far exceeds the supply of companies and that has already started to push prices higher than investors expected. For good businesses it is a seller's market. As more companies come to market that may restrain further price increases. A risk for private equity is that if the industry collectively holds back sales for too long and then releases a flood of deferred exits (as suggested by the survey) then that may create a buyer's market. For some assets, taking a contrarian view and going to market early to avoid the crowds could be a smart move.

Alex White
Corporate Finance Partner
BDO LLP
February 2010

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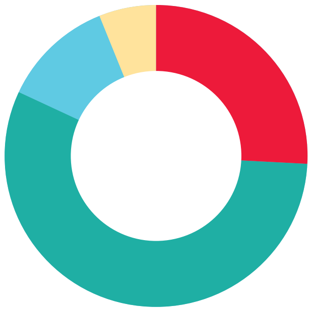
INVESTMENT APPETITE AND MARKET ACTIVITY

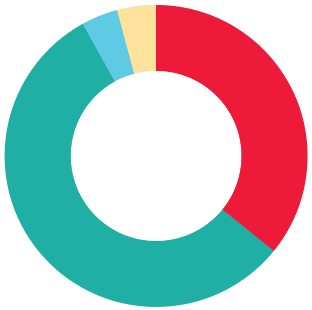
PE MANAGERS ARE CONCERNED THAT THE LAST TWELVE MONTHS INVESTMENT AND EXIT ACTIVITY IS LOW – IN MANY CASES UNSUSTAINABLY LOW

Q PE MANAGERS: How would you describe the relative level of investment activity you have undertaken in the last 12 months?



- Unsustainably low 26%
- Low 56%
- Normal 12%
- Above normal 6%

Q PE MANAGERS: How would you describe the relative level of exits from investments in the last 12 months?



- Unsustainably low 36%
- Low 56%
- Normal 4%
- Above normal 4%

"We are ready to get going again and feeling optimistic about the opportunities ahead. It's been a quiet, tight period, so we're all anticipating some improvement."

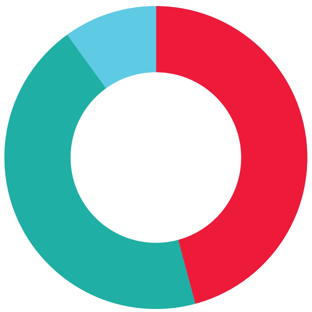
PE

"We raised our fund in January this year and our investors are keen to see us invest."

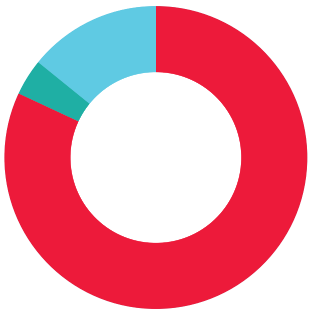
PE

PE MANAGERS BELIEVE THEY SHOULD BE INVESTING NOW AND ARE STRONGLY SUPPORTED BY THEIR FUND INVESTORS

Q PE MANAGERS: In your view, is now a good time to invest?

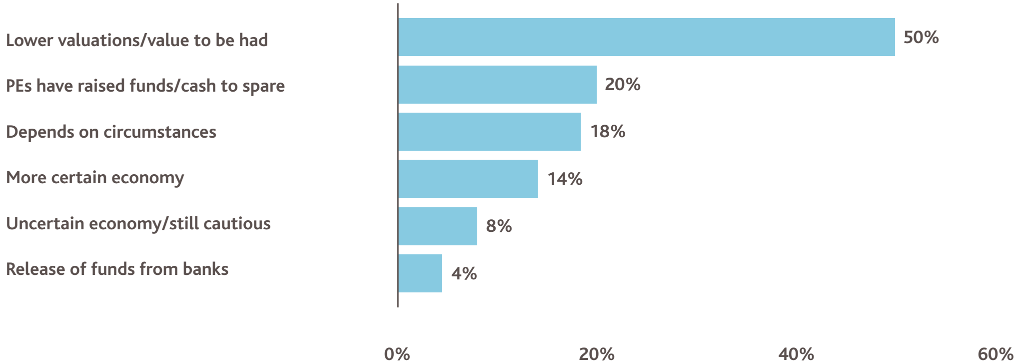


Q PE MANAGERS: In terms of investment activity in 2010, would you say your investors are keen or not keen to invest?



LOWER VALUATIONS AND THE AVAILABILITY OF FUNDS HAVE GIVEN INVESTORS AN APPETITE FOR INVESTMENT

Q PE MANAGERS: Why do you say that your investors are keen/not keen to invest?

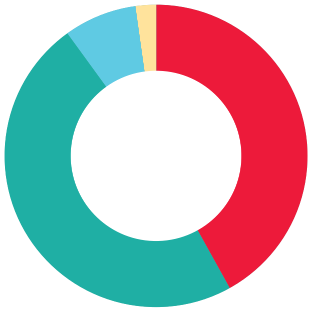


> "The environment is improving – it's becoming a good time to invest again."
>
> **PE**

> "We are beginning to see an ease of release of finance from the banks. There is greater certainty in the economy."
>
> **PE**

NEARLY ALL PE MANAGERS EXPECT INCREASED INVESTMENT ACTIVITY IN THE NEXT 12 MONTHS

Q PE MANAGERS: In the next 12 months, do you expect the rate of investment activity to increase, decrease or remain the same?



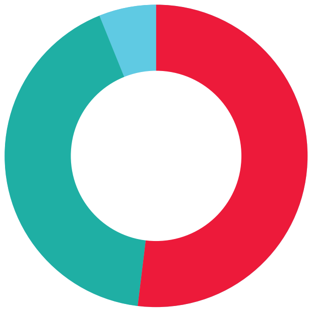
- Increase significantly 42%
- Increase a little 48%
- Remain the same 8%
- Decrease 2%

Q PE MANAGERS: What do you think will be the key drivers for investment activity in the next 12 months?

KEY DRIVERS FOR INVESTMENT ACTIVITY	
Private vendors selling up	64%
Corporates divesting to raise cash	62%
Distressed businesses	56%
PE exits	50%

MOST FUND INVESTORS WANT TO SEE MORE INVESTMENT EXITS

Q PE MANAGERS: In terms of achieving some exits in 2010, would you say your investors are keen to see exits increase or not concerned?



- Keen to see increase 52%
- Not concerned 42%
- Don't know 6%

"They have money to spend and are keen for us to put it to work."

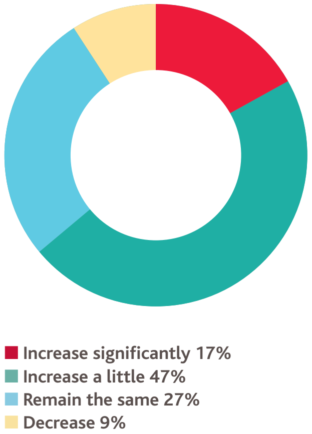
CORPORATE

"The pressure to invest is really building. Vendors are getting a warm reception."

BDO

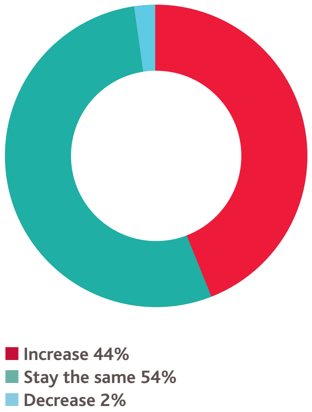
MOST CORPORATES EXPECT AN INCREASE IN BUSINESS ACTIVITY IN THE NEXT 12 MONTHS

Q CORPORATES: What are your expectations for business activity in your sector in the next 12 months?

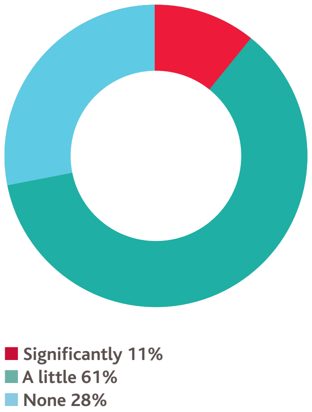


MANY PE MANAGERS AND CORPORATES WILL BE RECRUITING IN EXPECTATION OF INCREASED ACTIVITY OVER THE NEXT 12 MONTHS

Q PE MANAGERS: In the next 12 months, do you think that the size of your team will increase, stay the same or decrease?



Q CORPORATES: Do you anticipate recruiting to support growth in the next 12 months?

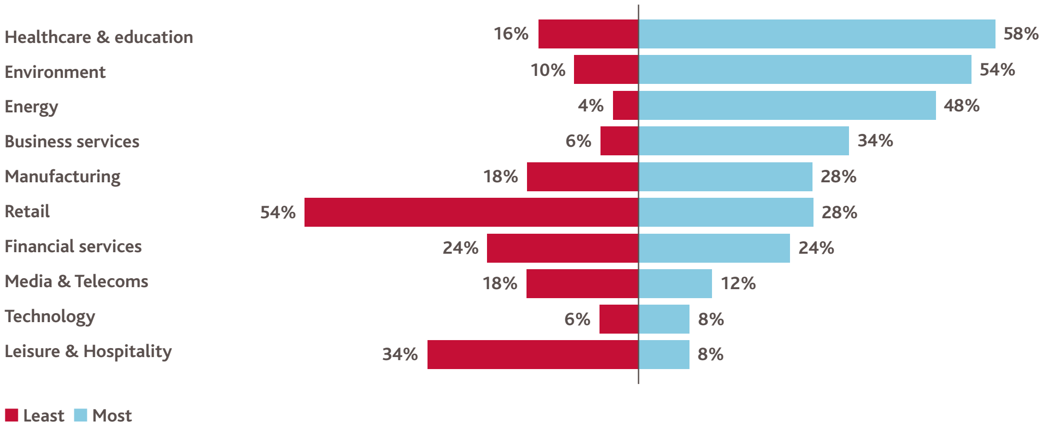


> "One of our main funds is set up to invest through the credit crunch and our investors can't get enough of it."
>
> **PE**

> "Sector preferences vary but there is appetite across the economy"
>
> **BDO**

HEALTHCARE AND EDUCATION, ENVIRONMENT AND ENERGY ARE THE THREE SECTORS EXPECTED TO ATTRACT THE MOST INVESTMENT ACTIVITY OVER THE NEXT YEAR

Q PE MANAGERS: I would like you to consider ten main business sectors and to say which three of them you think will attract the most investment activity in the next 12 months and which you think will attract the least.



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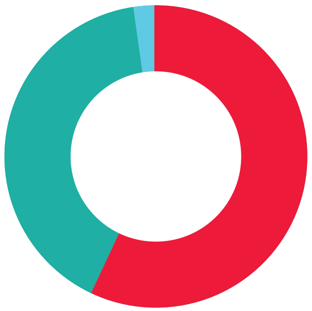
PORTFOLIO PERFORMANCE AND FUNDING

A MAJORITY OF PE BACKED COMPANIES BELIEVE THAT THEY HAVE OUTPERFORMED THEIR SECTOR DURING THE RECESSION

Q CORPORATES: How do you think your business has coped with the recession compared to your sector overall? If better or worse, why has that been?



- Better 57%
- In line 41%
- Underperformed 2%

WHY? (ALL SAYING BETTER: 57)	
Have performed well/good at what we do/ good management team	40%
Took pre-emptive action/reacted quickly	16%
General impression/competitors tell me we are doing well	12%
A good business model	9%
Efficiency/managed costs well	7%
Spread over several markets	5%

Smaller companies (up to £50m turnover) were a little more likely to feel that they had been able to cope better than their sector.

A MAJORITY OF PORTFOLIO COMPANIES BELIEVE THAT THEY HAVE OUTPERFORMED THEIR SECTOR DURING THE RECESSION

Q CORPORATES: If better than sector, why has that been?

"We took appropriate action before our competitors."

"We were well prepared and took early steps to reduce overheads."

"Largely due to PE investment and the introduction of new management."

"The way we run the business. Our customer base is an important factor – they're blue chip corporations. Also, our business model prepares us for the bad times as well as the good."

"In the main PE Managers have been successful at increasing portfolio management without distracting management."

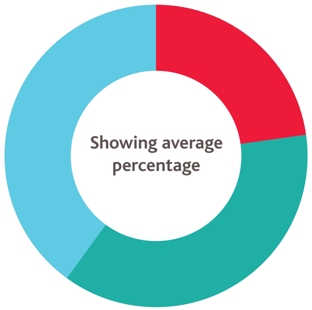
BDO

"As a result of being a new MBO, we have reacted faster than our competition to changing market conditions."

CORPORATE

COMPANIES MORE LIKELY TO FEEL THEY ARE BEHIND PLAN THAN THEIR INVESTORS

Q PE MANAGERS: In percentage terms, what proportion of your current investments would you say have performed ahead of original plan, are on target or are behind target to achieve original plan?



- Ahead of plan 23%
- On target 37%
- Behind target 40%

Q CORPORATES: In the past 12 months, how has your business performed against the original plan?

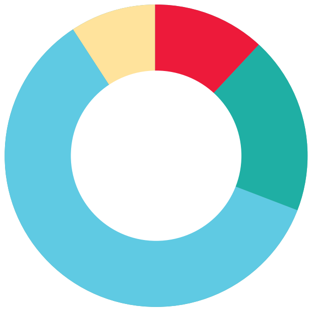
- Ahead of plan 16%
- On target 24%
- Behind target 60%

PE MANAGERS THINK THEY HAVE GOT MORE INVOLVED IN THEIR PORTFOLIO COMPANIES OVER THE PAST 12 MONTHS ... BUT MOST CORPORATES HAVE NOT NOTICED MUCH CHANGE

Q PE MANAGERS: As a result of recent performance, how has your direct involvement in your portfolio companies changed in the last 12 months?

- Much more 32%
- A little more 28%
- About the same 40%
- Less 0%

Q CORPORATES: Over the last 12 months, has the level of involvement in the business of your PE investor changed?



- Much more 12%
- A little more 19%
- About the same 60%
- Less 9%

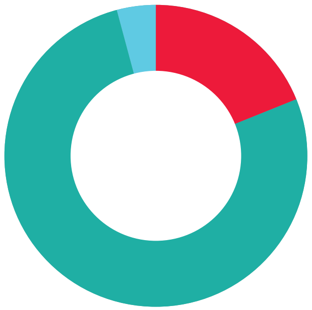
"The rigour demanded by PE is a positive thing – predicting accurately is very important. We know our business inside out, due to the challenges we've had to meet."

CORPORATE

"They could have a better understanding of the level of funding we require and that they could provide. They tend to be pretty invisible, hands off. Because they have other investments, they tend to have a split focus." **CORPORATE**

ONE IN FIVE PORTFOLIO COMPANIES SAY THAT DIRECT INVOLVEMENT BY THEIR PE INVESTOR HAS IMPROVED BUSINESS PERFORMANCE ...

Q CORPORATES: What impact has direct involvement by the PE investor had on business performance?

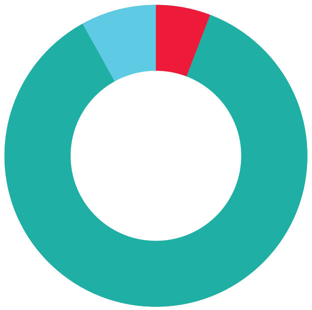


- Improved 19%
- Not affected 77%
- Harmed 4%

Those who have more recently become PE-backed are more likely to recognise improvement.

NEARLY ALL PORTFOLIO COMPANIES CONSIDER THE CURRENT LEVEL OF INVOLVEMENT BY THEIR PE INVESTOR TO BE ABOUT RIGHT

Q CORPORATES: Do you consider the current level of involvement by your PE investor to be not enough, about right or too much?



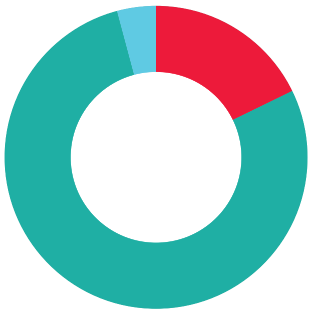
- Not enough 6%
- About right 86%
- Too much 8%

> "We had to make some big decisions and their advice has been invaluable."
>
> **CORPORATE**

> "The vast majority of PE investments are re-focussed on growth."
>
> **BDO**

NEARLY ONE IN FIVE PE MANAGERS EXPECT TO INCREASE THEIR DIRECT INVOLVEMENT IN PORTFOLIO COMPANIES IN THE NEXT 12 MONTHS

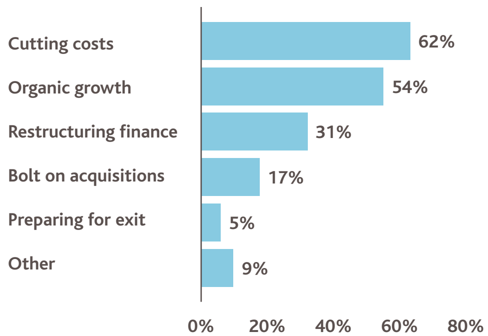
Q PE MANAGERS: How do you see your direct involvement in your portfolio companies changing in the next 12 months?



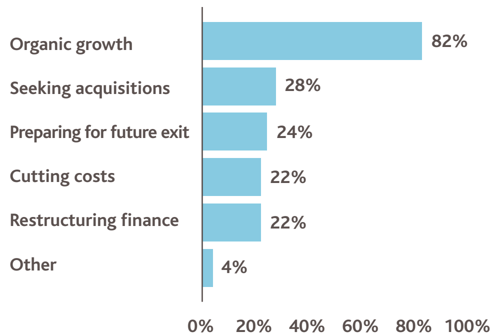
- More 18%
- About the same 78%
- Less 4%

COMPANY MANAGEMENT TEAMS HAVE SHIFTED FROM COST-CUTTING TO ORGANIC GROWTH

Q CORPORATES: What has been management's main focus in the last 12 months?



Q CORPORATES: What do you expect to be the key focus of the management team in the next 12 months?



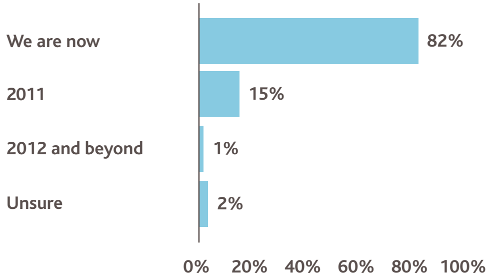
"A change of ownership often brings forward investment in the next phase of growth."

BDO

"A key challenge for PE will be to find ways of releasing management time from debt management to growth. Now the economic outlook is a bit clearer there is an upside to consensual restructuring." BDO

MOST PE BACKED COMPANIES NOW SEE THEMSELVES AS BACK ON A GROWTH FOOTING. BUT MANY BELIEVE FUNDING, REFINANCING OR CHANGE OF OWNERSHIP WOULD HELP ACCELERATE GROWTH

Q CORPORATES: Would you say that your business is currently on a growth footing, or, if not, when do you anticipate that it will be?

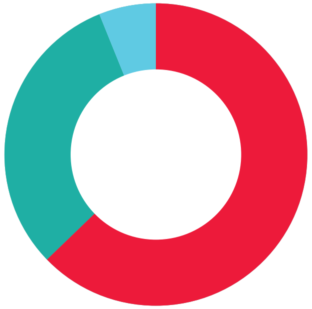


Q CORPORATES: Would funding, refinancing or change of ownership accelerate growth?

Yes 45%
No 55%

APROXIMATELY 1 IN 3 COMPANIES DO NOT THINK THEIR CAPITAL STRUCTURE IS APPROPRIATE

Q CORPORATES: Do you feel that your business's capital structure is appropriate in the current environment? Why do you say that?



Yes 63%
No 31%
Unsure/refused 6%

YES (MAIN RESPONSES):	
Lack of debt /appropriate level of debt	21%
All straight forward/no problems	10%
Have good reserves/capital	8%
Restructured recently	7%
Cash doing well/liquid/cost-effective	5%
NO (MAIN RESPONSES):	
Over-geared/have debt/over-leveraged	18%
Lack of capital/funding/thinly capitalised	8%

"We've concentrated on core values. Talked with customers, kept our price competitive, maintained our higher end clients."

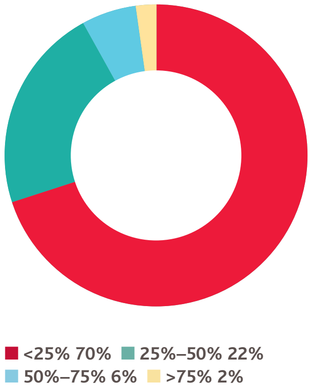
CORPORATE

"Positive and voluntary restructuring undertaken in the context of a revised growth plan requires great stakeholder communication and a re-motivated management team."

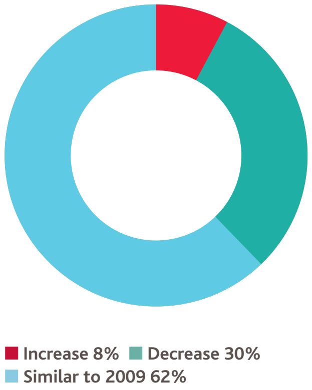
BDO

PE MANAGERS SAY ONLY A MINORITY OF INVESTMENTS HAVE ACTUALLY REQUIRED SOME DEBT RESTRUCTURING

Q PE MANAGERS: What proportion of your investments has required some restructuring of debt terms?



Q PE MANAGERS: Do you anticipate the number of instances of debt restructuring in your portfolio in 2010 to ...?

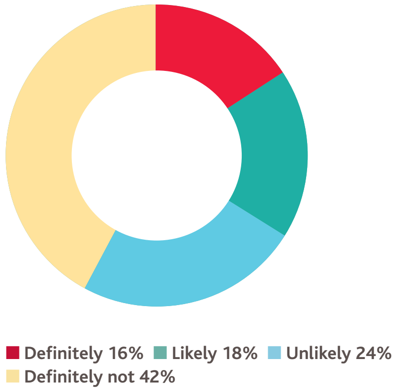


Companies who have been PE-backed for 5+ years are a little more likely to say they are behind target to achieve the original plan.

BUT COVENANT RESETTING HAS BEEN COMMON AND ONE IN THREE COMPANIES ARE LIKELY TO RESTRUCTURE DEBT IN THE NEXT 12 MONTHS

Q CORPORATES: Have you reset covenants with your bank or restructured your debt within the last two years?

Q CORPORATES: Do you anticipate needing to restructure your debt in the next 12 months?



Those corporates who have seen increased direct involvement of their PE investor are more likely to have restructured or expect to restructure their debt.

"Corporates are more likely to consider themselves over-leveraged while PE managers will tend to feel banking relationships are more strained."

BDO

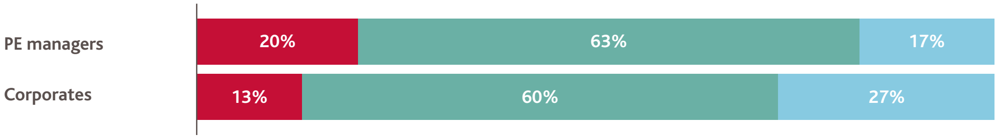
"How individual banks and individual PE houses treat each other will set the scene for private equity investing in the next 5 years."

BDO

JUST OVER A QUARTER OF CORPORATES THINK THEY ARE OVER LEVERAGED

Q PE MANAGERS: What proportion of your existing investments would you describe as under leveraged, about right and over leveraged? (Average shown)

Q CORPORATES: How would you describe your business in relation to the level of debt in the business?



Underleveraged About right Over leveraged

PE MANAGERS ARE MORE LIKELY TO FEEL THAT RELATIONSHIPS WITH DEBT PROVIDERS HAVE DETERIORATED IN THE LAST 12 MONTHS

Q PE MANAGERS: In the last 12 months, would you say your relationships with debt providers have improved or deteriorated?

"All parties are now working towards more common and often more urgent goals."

"It's more of a function of better relationship management on our part rather than what's happening in the market."

"They've become very aggressive about our portfolio companies."

- Improved 20%
- Remained the same 44%
- Deteriorated slightly 28%
- Deteriorated a lot 8%

"They have been claiming to be open for business but aren't. They are looking to lend in completely risk-free businesses, which are unrealistic expectations."

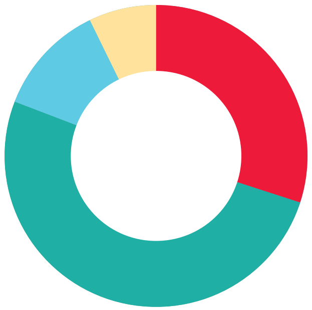
CORPORATE

"Because of the situation we are in, there is more dialogue now than before."

CORPORATE

BUT PORTFOLIO COMPANIES ARE A LITTLE MORE LIKELY TO FEEL THAT RELATIONSHIPS WITH PRINCIPAL LENDERS HAVE IMPROVED IN THE LAST 12 MONTHS

Q CORPORATES: How has your relationship with your principapl lender or lenders changed in the last 12 months? If improved or deteriorated: In what way(s)?



- Improved 30%
- Remained the same 51%
- Deteriorated slightly 12%
- Deteriorated a lot 7%

"They've become very confident with the business and the information they're getting."

"They like us because our business is straightforward, with lots of headroom. We're very low risk as far as they are concerned."

"They have been much more open in participation."

"They have been very supportive."

"Because of the acquisition and then the credit crunch, they said they had no money to invest."

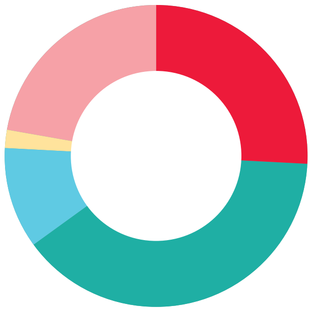
"We are over-geared and they are worried about the debt."

"WE have generally had problems with the bank and their response has been appalling."

"They tend to charge more and lend less, mainly looking after themselves."

MOST PORTFOLIO COMPANIES SAY THAT THEIR PE BACKER HAS BEEN HELPFUL IN DISCUSSIONS OR NEGOTIATIONS WITH THEIR LENDERS

Q CORPORATES: In any discussion with your principal lender or lenders, has your PE backer been ...?



- Very helpful 26%
- Fairly helpful 39%
- Neither 11%
- Unhelpful 2%
- Played no role 22%

"They run the negotiations. They've always been very hands on, which is great."

"They're an influencer in terms of where the bank ought to stand, and the bank takes notice of their opinion."

"Providing us with understanding of the banking landscape, knowing what the bank requires."

"By bringing in their knowledge and expertise."

"Because they're 100 per cent behind the business."

"It went on for months and was a real struggle, but our PE backer was helpful in resolving the situation."

"They generally smooth out the edges of any discussions and have a good relationship with the bank."

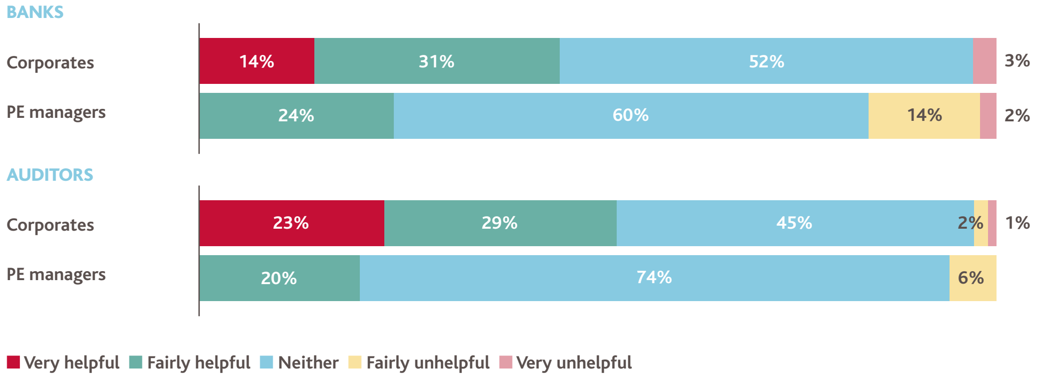
"They pressed the bank on margins and got us better margins."

"Supporting the business and being there when we need them, when we need to wheel them out."

> "There is clearly more potential for private equity backed businesses to seek more advice and a higher value adding relationship with their auditors."
>
> **BDO**

PRIVATE EQUITY MANAGERS DO PERCEIVE COMPANY AUDITORS AS PARTICULARLY HELPFUL IN SUPPORTING GOING CONCERN JUDGEMENTS

Q Where going concern judgements were pertinent, how supportive generally were the banks and auditors in supporting the board in reaching their judgement?



Those corporates who have reset covenants or restructured debt tend to feel that both banks and auditors have been more helpful in respect of going concern judgements.

3

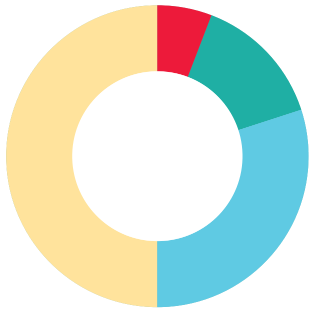
BOLT ON ACQUISITIONS

A QUARTER OF CORPORATES HAVE ALREADY MADE BOLT ON ACQUISITIONS AND A FURTHER ONE IN THREE THINK THERE IS SOME LIKELIHOOD THAT THEY WILL. PE MANAGERS EXPECT A MINORITY TO MAKE SUCH ACQUISITIONS PRIOR TO EXIT

Q CORPORATES: Do you expect to make any bolt on acquisitions prior to exit?

Already have 27% No, but definitely will 6%
No, but likely 28% No, unlikely 22%
No, definitely not 17%

Q PE MANAGERS: What proportion of your existing investments do you expect to make future bolt on acquisitions prior to exit?



Over 75% 6% 51–75% 14%
25–50% 30% Under 25% 50%

"Buy and build programmes remain a core strategy for many investments, although PE appear to be more cautious than management teams when evaluating the value added."

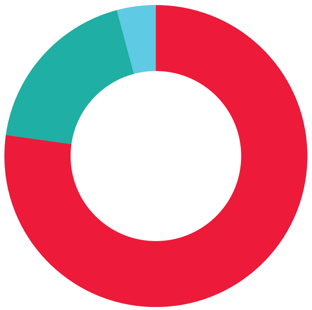
BDO

"Large bolt-ons will usually push out the exit timetable but with so many planned exits delayed in 2009 this may temper owners enthusiasm for acquisitions."

BDO

MOST CORPORATES SAY THEIR BOLT ON ACQUISITIONS HAVE ADDED VALUE WHILE PE MANAGERS ARE MORE EQUIVOCAL

Q CORPORATES WHO HAVE MADE BOLT ON ACQUISITIONS (27): Do you consider that these have been successful and added value?



- Generally yes 78%
- Mixed results 19%
- Generally no 4%

Q PE MANAGERS: In your experience, what proportion of bolt on acquisitions have added value?

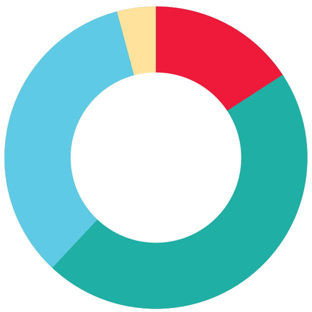
- Over 75% 30%
- 51–75% 34%
- 25–50% 10%
- Under 25% 26%

NEARLY HALF OF CORPORATES EXPECT TO LOOK SERIOUSLY AT BOLT ON ACQUISITIONS IN THE NEXT 12 MONTHS, AND PE MANAGERS EXPECT TO SEE SOME INCREASE

Q CORPORATES: Do you expect to look seriously at a bolt on acquisition in the next 12 months?

- Definitely 18%
- Likely 29%
- Unlikely 34%
- Definitely not 19%

Q PE MANAGERS: Over the next 12 months, do you expect the rate of bolt on acquisitions to ...?



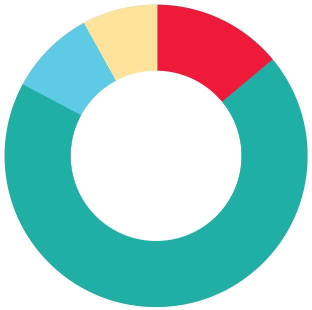
- Increase a lot 16%
- Increase a little 46%
- Remain the same 34%
- Decrease 4%

4

MANAGEMENT

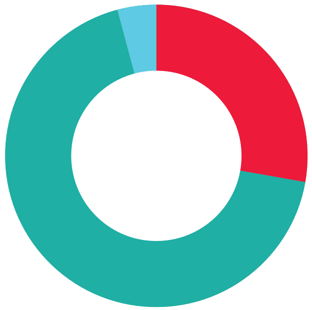
PE MANAGERS SAY ONE IN THREE MANAGEMENT INCENTIVE PLANS HAVE EITHER BEEN RESTRUCTURED OR ARE EXPECTED TO BE REVIEWED

Q PE MANAGERS: In percentage terms, how many of your investee companies' management incentivisation plans ...?



- Have been restructured 14%
- Are still appropriate 69%
- Are under review 9%
- Review expected 8%

Q PE MANAGERS: During 2010, do you anticipate the instances of restructuring of the management incentivisation plans for companies in your portfolio to ...?



- Increase 28%
- Remain the same 68%
- Decrease 4%

"The current environment has put the clock back about two years and management equity is sitting behind a wall of rolled up interest and loan notes."

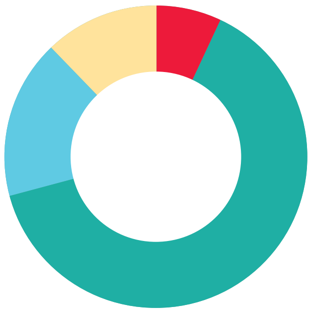
CORPORATE

"There are plans in place but these are 'option' plans and are way off the radar."

CORPORATE

JUST OVER ONE IN THREE MANAGEMENT TEAMS EXPECT TO CONSIDER RESTRUCTURING THE MANAGEMENT DEAL

Q CORPORATES: What is the status of the original management incentivisation plan?



- Has been restructured 7%
- No change expected 64%
- Under review 17%
- Review expected 12%

In line with this, most (72%) consider the current management team equity incentivisation plans to be appropriate – just over one in four disagree

"They are worthless. Revenue multiples have taken us to the point of being underwater."

"It needs to be re-geared in line with the new debt structure."

"I don't feel it's on a level playing field."

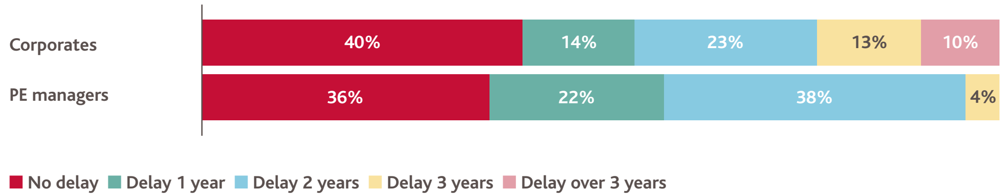
5

EXITS AND PRICING

A MAJORITY OF PLANNED EXITS HAVE BEEN DELAYED BY THE RECESSION, PROBABLY BY TWO YEARS

Q CORPORATES: Has the exit been delayed by the recession? By how long?

Q PE MANAGERS: Have you delayed any planned exits as a result of the downturn? In general, by how long?



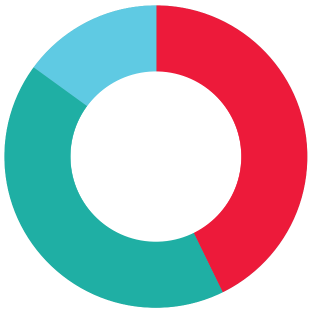
"Good companies are getting good prices now because demand for deals is out-stripping supply on vendors. As M&A volumes rebound in 2011/2012 further growth in earnings multiples may be modest." **BDO**

"It may make sense to bring forward exit timing to exploit the imbalance between demand and supply of deals."

BDO

MANY MANAGEMENT TEAMS BELIEVE THE DELAY IN EXIT ALONE HAS ADVERSELY AFFECTED THEIR COMPANY'S GROWTH AMBITIONS

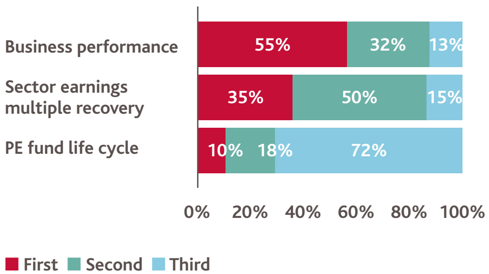
Q CORPORATES WHOSE EXIT HAS BEEN DELAYED (60%): How has this alone affected your ambitions for the company's growth?



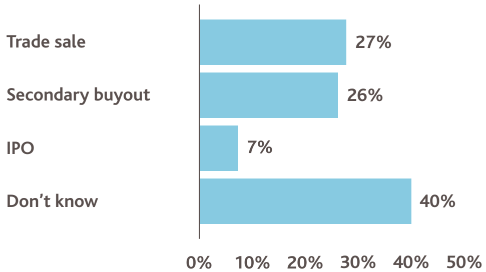
- Adversely affected 43%
- Not affected 42%
- Positively affected 15%

BUSINESS PERFORMANCE IS THE KEY FACTOR IN DETERMINING EXIT TIMING, WHILE IPO IS VIEWED AS THE LEAST ATTRACTIVE EXIT

Q CORPORATES: What do you see as the order of importance of the following in determining exit timing?



Q CORPORATES: How would you prefer to exit?



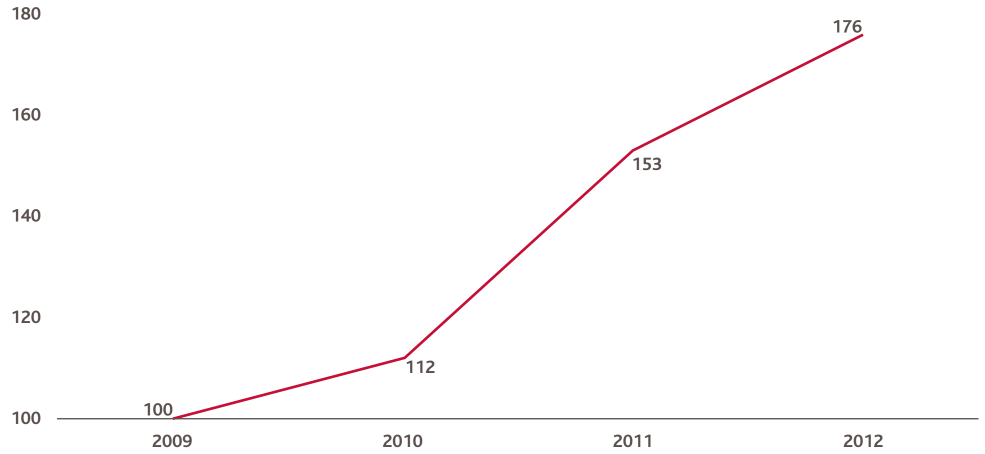
"Bringing forward the exit timetable is particularly relevant for management teams to avoid the risk of CGT increasing."

BDO

"PE based businesses are being pulled from IPO's as fund managers and PE houses stare each other out on valuation. No one wants to blink first. It may take until 2011 before we see the end of this stand off, but it will happen eventually." **BDO**

PE MANAGERS WILL USE 2010 TO PLAN FOR A SIGNIFICANT RAMP UP IN EXITS

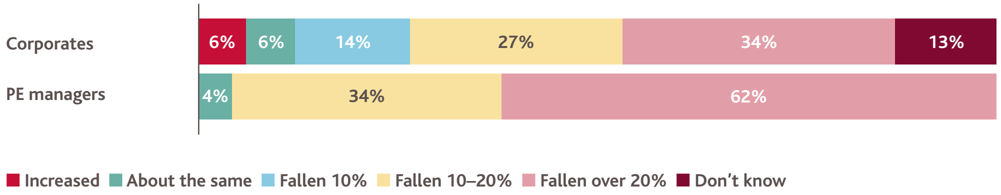
Q PE MANAGERS: Taking 2009 as an index of 100, what level of investment exits do you expect over each of the next three years?



COMPANY VALUATIONS ARE MOST COMMONLY THOUGHT TO HAVE FALLEN BY MORE THAN 20 PER CENT SINCE 2007, ESPECIALLY BY PE MANAGERS

Q CORPORATES: How much in percentage terms do you estimate company valuations have changed in your sector since 2007?

Q PE MANAGERS: When considering the mid-market, how much in percentage terms has pricing come off from the highs of 2007?



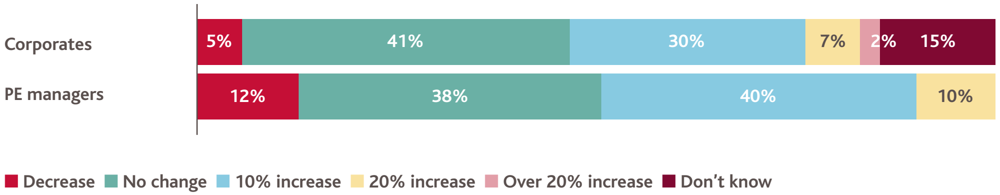
> "Anecdotally, pricing is much stronger than respondents thought it would be although the survey suggests that significant further growth in multiples over the next year is optimistic."
>
> **BDO**

> "Opinion on the prospects for consumer facing sectors are divided, but that's fine. Knowing which investors are enthusiastic is what is important for exits by secondary buy-out."
>
> **BDO**

CORPORATES AND PE MANAGERS ARE CAUTIOUS IN PREDICTING GROWTH OF PRICE/EARNINGS MULTIPLES OVER THE NEXT 12 MONTHS, BUT MANY EXPECT 10 PER CENT GROWTH

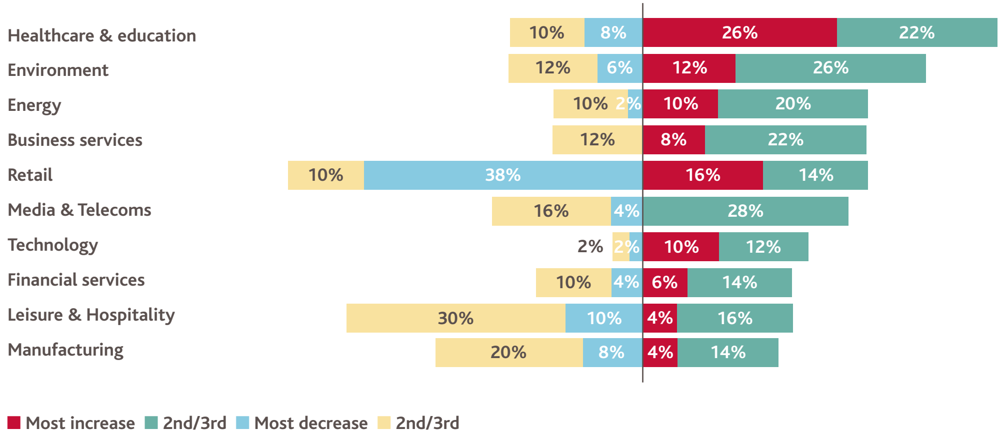
Q CORPORATES: In general terms, what change do you expect in price/earnings multiples paid in your sector over the next 12 months?

Q PE MANAGERS: In general terms, what are your expectations of price/earnings multiples 12 months from now?



RETAIL, LEISURE AND MANUFACTURING WERE THE SECTORS WITH THE MOST DIVERGENT OPINIONS ON FUTURE VALUATIONS

Q PE MANAGERS: I would like you to consider ten main business sectors and to say which three of them you think are most likely to enjoy increasing valuations and which you think are most likely to suffer decreasing valuations in the next 24 months.



6

TAXATION OF PE BACKED BUSINESSES

MOST COMPANIES HAVE NOT PRE-AGREED TAX DEDUCTIBLE INTEREST EXPENSE

Q CORPORATES: Have you pre-agreed the amount of interest which will be tax-deductible with HMRC?

- Yes 38%
- No 62%

Q PE MANAGERS: Have all your portfolio companies pre-agreed the amount of interest which will be tax-deductible with HMRC?

- Yes 18%
- No 42%
- Don't know 40%

Those who have not done so generally quote lack of awareness of this route, lack of time and resource, and lack of relevance or applicability.

"Unaware that an up front agreement could be obtained."
(Corporates and PE managers)

"Insufficient time and resource."
(Corporates and PE managers)

"We already had tax relief on half, so it wasn't worth our while."
(Corporate)

"Increasing corporation tax is seen as much more preferable to taxing employment."

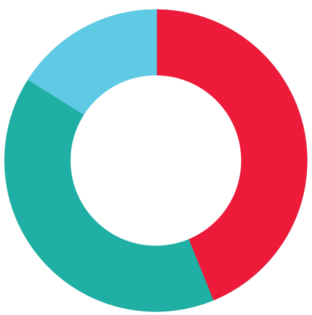
BDO

"Tax uncertainty is a problem for management teams rather than PE when it comes to exit and agreeing tax indemnities. MBO teams are taking an unnecessary risk by not pre-agreeing interest deductions with HMRC." **BDO**

MANY WOULD LOOK TO RESTRUCTURE THEIR BALANCE SHEET SHOULD THERE BE A SIGNIFICANT RESTRICTION ON THE DEDUCTIBILITY OF INTEREST ON THEIR DEBT

Q Would a significant restriction on the deductibility of interest on your debt (as mooted by George Osborne of the Conservative Party) cause you to restructure your balance sheet?

PE MANAGERS



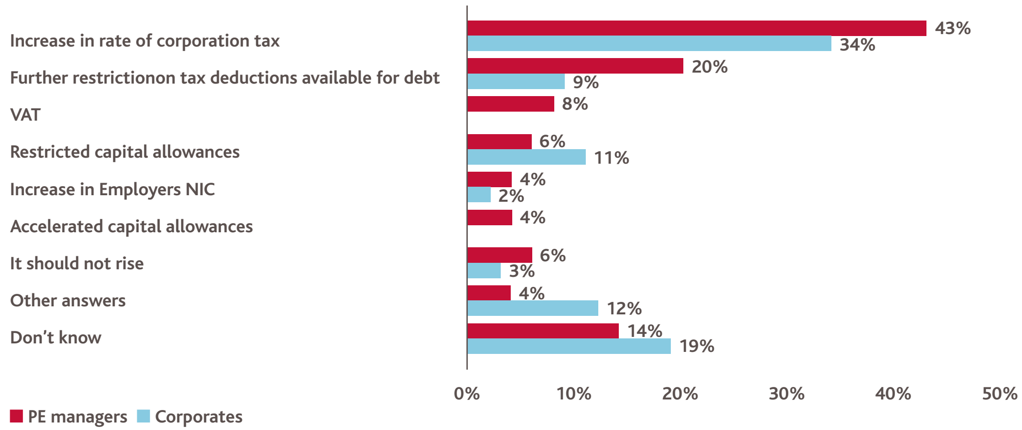
- Yes 44%
- No 40%
- Don't know 16%

CORPORATES

- Yes 33%
- No 48%
- Don't know 19%

IF THE TAX BURDEN ON CORPORATES NEEDS TO RISE, AN INCREASE IN THE RATE OF CORPORATION TAX IS THE FAVOURED ALTERNATIVE

Q If the tax burden on corporates is to rise, where do you think this should be targeted?



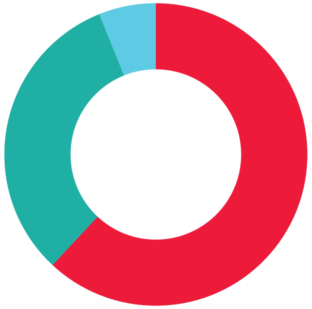
"Inevitably people will plan to avoid the new 50 per cent higher rate income tax. This makes it all the more likely that CGT will be be increased to close the gap with income tax. That's what Nigel Lawson did."

BDO

THE INTRODUCTION OF A 50 PER CENT INCOME TAX RATE WILL LEAD TO MORE RADICAL TAX PLANNING

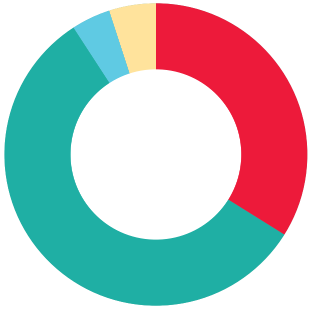
Q Will the introduction of a 50 per cent income tax rate cause you to consider more radical tax planning?

PE MANAGERS

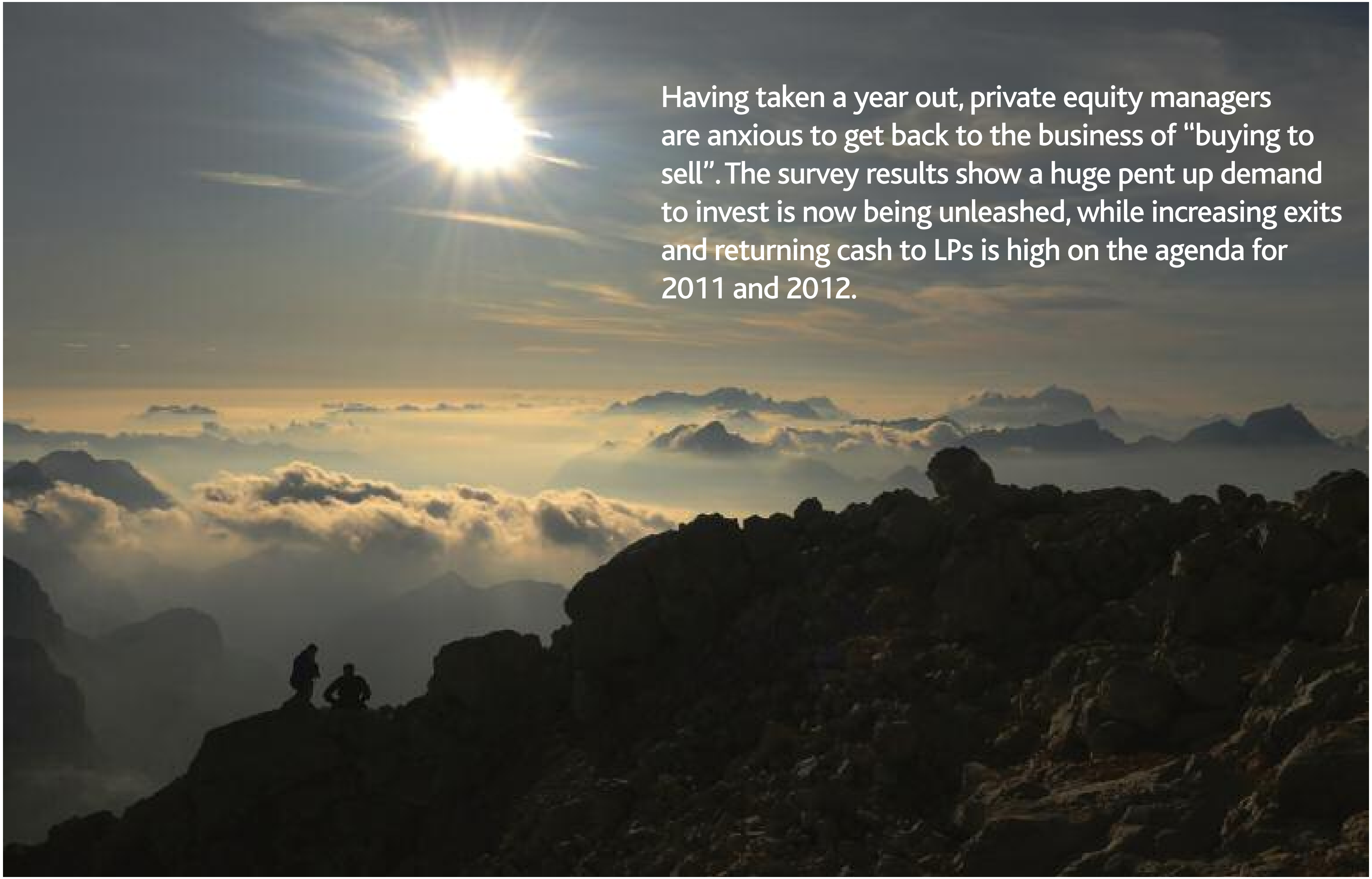


- Yes 62%
- No 32%
- No, but should 6%

CORPORATES



- Yes 34%
- No 57%
- No, but should 4%
- Don't know 5%



Having taken a year out, private equity managers are anxious to get back to the business of "buying to sell". The survey results show a huge pent up demand to invest is now being unleashed, while increasing exits and returning cash to LPs is high on the agenda for 2011 and 2012.

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'Tax Team of the Year' 2009 and 2008
'Audit Team of the Year' 2008
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