CorporateLiveWire

PRIVATE EQUITY 2020
VIRTUAL ROUND TABLE

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Introduction & Contents

In this roundtable, seven private equity experts discuss the benefits of machine learning and artificial intelligence, identify the latest investment strategies and acquisition trends, and outline the various implications of COVID-19 on the PE landscape. Featured countries include: Australia, India, United Kingdom and United States.

James Drakeford
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Meet The Experts

Albertha Charles - PwC
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Albertha Charles is a partner in PwC's Valuation practice in the UK with 150 staff. She leads PwC's UK Financial Services Valuations team and has over 18 years experience of delivering valuation advice to Private Equity, Asset Management and Insurance clients. Albertha advises her private equity clients on a wide range of valuation issues including fund restructuring & interfund transfers, M&A transactions, financial reporting and management reward schemes.

Albertha was voted 2017 Financial Services Leader of the Year by the BBBA and has been recognised in the Empower Top 100 Ethnic Minority Executives List for the last 4 years.

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Shagoofa has over 19 years of experience across structuring funds (domestic and offshore), managed accounts, fund documentation, acquisitions / exits / restructuring / joint ventures and strategic initiatives. She has been recognised as "Leading Lawyer" under the "Corporate/M&A" and "Investment Funds" rankings in The Guide to Asia-Pacific's Leading Lawyers (2017 edition), a publication of the Legal Media Group, Asia Law & Practice.

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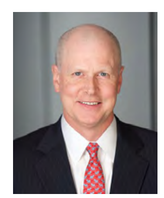
Nathan Cahill is a leading lawyer in private equity, hedge and equity fund formation and investment within the financial services industry with wide experience in local and offshore funds. He is lauded and sought after for his commercial acumen, innovation and valuable strategic advice to major financial institutions including in respect of the establishment and restructure of their financial services businesses, defending predatory investors and product development. He advises leading funds managers and financial services providers on product structuring, IPOs, fund raisings, the investment and divestment process, offshore products and innovative IDPS and wrap platforms. Nathan is recognised in Chambers and Best Lawyers in relation to investment funds management.



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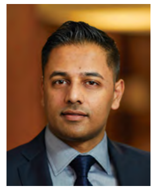
Stephen Culhane co-heads Arnold & Porter's Investment Management practice and focuses primarily on representing sponsors of private equity, real estate, special situation and distressed investment funds, hedge funds, and funds of funds with respect to the structuring, formation, and operation of such fund products. He routinely assists management teams with the formation or restructuring of investment management firms, and he also assists with investments in, or acquisitions or dispositions of, investment management firms. He also advises institutional investors with respect to their investments in private funds, and has extensive experience negotiating complex secondary transactions as well as fund restructuring transactions.

Meet The Experts



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Divesh is a corporate Partner at Johnson Winter & Slattery specialising in mergers and acquisitions, private equity transactions and foreign investment. He also regularly advises on cross-border transactions, equity capital markets, joint ventures, commercial transactions, distressed sale transactions and restructurings.

He advises a wide variety of domestic and cross-border clients, including private equity sponsors, across a broad range of sectors including manufacturing, retail, FMCG, financial services, infrastructure, aviation and transport, media, technology and telecommunications.

He has acted for a number of private equity sponsors and funds including Archer Capital, Baygrove Capital, Blackstone, Brookfield, Insight Venture Partners, L Catterton, Potentia Capital and Providence Private Equity.

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David McClelland, Director and Founder of CSA, has specialised in commercial diligence and business strategy consulting for over twenty years. He set up commercial due diligence in Tenon Corporate Finance, working previously with Price Waterhouse Coopers' Strategy Group and other specialist industry strategy boutiques.

In an extensive and earlier corporate career, David held commercial management positions in the ICI, RTZ and Norsk Hydro groups where he was responsible for international sales and marketing at divisional board level. This included experience of company acquisition and disposal.

David holds a science degree from the University of Strathclyde and an MBA from Cass Business School, City University, in addition to his executive education at Henley Management College.

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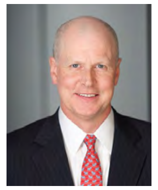
An ardent tech enthusiast, John founded his first business aged 24 and has gone on to achieve multiple exits over a 20 year entrepreneurial career. He's mentored for the US business, TechStars; represents Silicon Valley Bank on their Growth Stage Advisory Board and coached some of the best and brightest UK start-up talent where he's worked as Investor Director and Non-Exec Director/Chair.

A specialist in UX and growth, he's raised £15m+ in capital from VC's, debt providers and high net worth individuals, is an active angel investor and has recently founded mnAI, the award winning, disruptive tech start-up that aims to revolutionise the way in which investors identify their next acquisition or investment opportunity.

With advanced machine learning at its core, mnAI contains 7.2bn+ data points covering 6.4m UK companies and is used by a number of private equity, family office and wealth managers to deliver invaluable insight and results quickly, accelerating all aspects of the target identification process from initial selection and due diligence through to portfolio performance monitoring against industry peer groups post-transaction.

Q1. Can you talk us through the current private equity landscape in your jurisdiction?



Stephen Culhane

Culhane: Market events have slowed fundraising due to market uncertainty and increased challenges associated with investor diligence. Market uncertainty has also created pricing challenges for secondary transactions, resulting in a decline in secondary activity. Select managers/strategies have benefited from the current market, including funds that specialise in investing in distressed businesses, and credit funds who are benefiting from stronger pricing power than they have had in years. As one would expect, funds exposed to retail, energy and hospitality are being severely challenged.

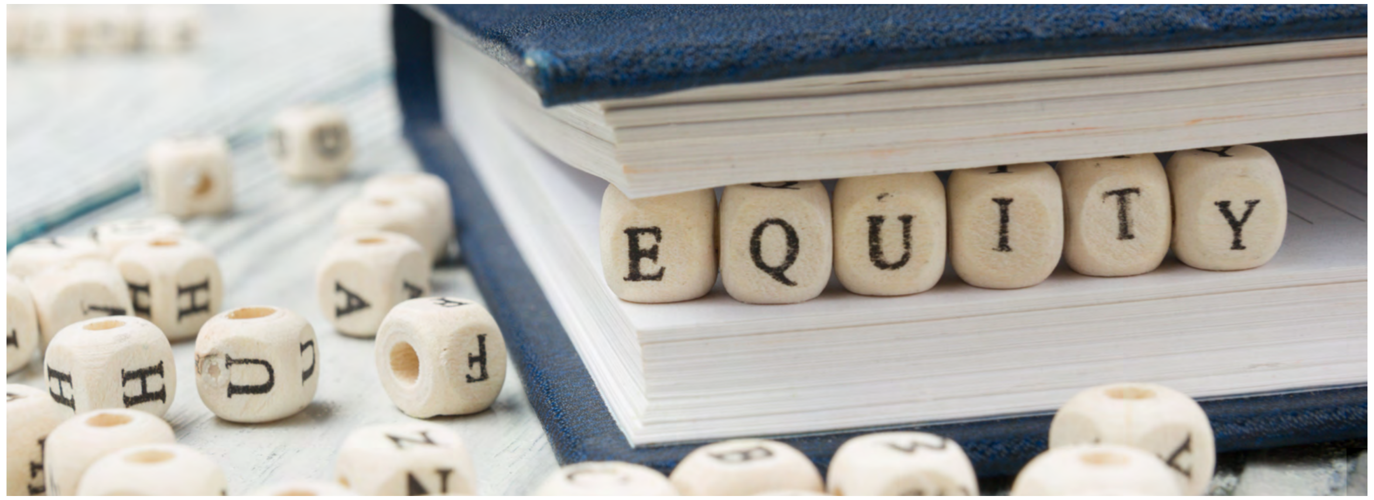
David McClelland

McClelland: The era of low interest rates in the UK has persuaded increased numbers of savers and investors to put their money into alternative asset classes in search of higher returns. Private equity has benefited, but new firms and funds are frequently chasing the same investment portfolio opportunities as business owners and managers defer corporate finance decision making in a flat, Brexit-stymied, economic landscape.

Shagoofa Rashid Khan

Khan: The Indian securities market regulator – Securities and Exchange Board of India ("SEBI") – is the primary regulator for intermediaries in the asset management space. SEBI, through the various regulations issued by it, regulates funds (onshore and offshore) and other intermediaries such as investment managers, asset management companies, investment advisors, portfolio managers, etc. Onshore funds (investment funds set up in India) could be established under the mutual fund regime or alternative investment funds ("AIFs") regime or infrastructure investment trusts (INVITs) regime or real estate investment trusts (REITs) regime. Onshore hedge funds are regulated under the AIF regime.

The Reserve Bank of India also regulates offshore funds (investment funds set up outside India that invest in Indian securities or in onshore funds) through the exchange control regulations, viz. FEMA (Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 ("FEMA 20") and Consolidated Foreign Direct Policy Circular of 2017, revised annually and issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India ("FDI Policy"). Offshore funds can thus invest in Indian securities or onshore funds under the FDI route, or under Foreign Portfolio Investor ("FPI") regime or Foreign Venture Capital Investor ("FVCI") regime.



Q2. Have there been any recent regulatory changes or interesting developments?

David McClelland

McClelland: Changes to UK venture capital trust rules – designed to clamp down on perceived low-risk investment schemes – have tipped many fund managers into greater numbers of smaller sized investments. As an example, a fund might have previously invested £5m in a single qualifying but relatively low risk portfolio opportunity. Now it might invest only £1-2m in a somewhat earlier stage and comparatively riskier growth capital opportunity, following this up later with second-round top-ups of £2-4m where the earlier investment has proven successful.

This has affected the traditional role played by transaction services firms, such as CSA. For instance, due diligence scope on the previously qualifying and larger-sized deal had tended to be more encompassing, as investors sought greater comfort before backing the bigger ticket transaction. Presently, CSA is seeing VCT funds carry out relatively light scope diligence on these lower valued investments: often tech companies able to demonstrate initial proof of concept across a still limited business base in need of further expansion capital; for example, to take on addition people or fill out particular resource gaps. As these companies go on to seek increased funding in order to solidify the totality of their proposition, the funding VCT may seek additional diligence (e.g. research to more comprehensively understand regional market opportunities and references to test customers' evolving preferences and attitudes towards emergent technology, and around the true market quantum or services fulfilment level). One issue identified by CSA is where an investee tech business has had a particularly enthusiastic product technology champion in a constricted customer base. In such circumstances it may be prudent to further stress test indicative demand within the wider customer universe ahead of the intended injection of the extra development capital.

Nathan Cahill

Cahill: The increase in bank prudential capital requirements has led to banks pulling out of lending to certain types of PE deals as well as businesses themselves. This has heightened the need for alternative sources of capital which has been filled by PE funds and alternative debt providers.

Australian foreign investment restrictions have tightened and deals that might have easily gained government approval are now being rejected or slowed right down. This has affected a number of large deals in agriculture, food and other sensitive sectors.

Australia continues to place great regulatory emphasis on fees. Whilst downward fee pressure has existed for a number of years due to government pressure to reduce fees on particularly pension funds, this has gained even greater prominence through the recent Hayne Royal Commission which found several financial institutions were charging inappropriate fees. Unfortunately this has led to some investment decisions being centred around fee levels rather than net investment returns. This hurts allocations to the PE sector due to its perceived high fees despite the sector delivering superior net returns for investors over many years.

Lastly, there have been considerable changes to education, aged care and health sectors with the government aiming to reduce cost and tighten regulation around unscrupulous operators. This has unfortunately affected the "good guys" through a general industry approach. This has made these sectors less attractive for PE investment compared to past years.

"Whilst downward fee pressure has existed for a number of years due to government pressure to reduce fees on particularly pension funds, this has gained even greater prominence through the recent Hayne Royal Commission which found several financial institutions were charging inappropriate fees."
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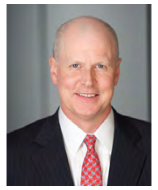
Q2. Have there been any recent regulatory changes or interesting developments?

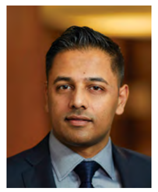


Stephen Culhane

Culhane: COVID-19 has been the defining event; very little regulatory change directly affecting investment managers, although international tax and AML regulations continue to affect business practices in places like the Cayman Islands.

PPP affiliation rules worked to exclude PE portfolio companies from the initial round of financing, which was likely harmful to numerous early and growth stage portfolio companies.

The increase in working remotely has caused PE firms, and regulators, to re-examine disaster recovery practices and cybersecurity measures. These trends will almost certainly continue for the foreseeable future.



Divesh Patel

Patel: In response to on-going economic impacts of COVID-19, the Commonwealth Government announced on 29 March 2020 that the monetary screening thresholds for all proposed foreign investments into Australia were reduced to $0. As a result, all proposed foreign investments that are subject to the Foreign Acquisitions and Takeovers Act 1975 (Cth) now require Foreign Investment Review Board (FIRB) approval. This is a temporary measure that will remain in place until the COVID-19 crisis ends.

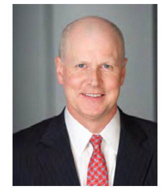
Furthermore, in order to ensure sufficient time for screening applications, the timeframes for screening applications to FIRB have been extended from 30 days to six months, although urgent applications and applications that protect and support Australian businesses and jobs are being prioritised.

On a related note, an on-going trend in foreign investment review is that FIRB commonly imposes conditions on its approvals in relation to compliance with taxation laws and data security.

Some of the other legislative and regulatory responses to the COVID-19 crisis include:

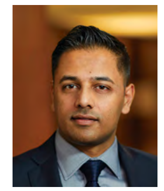
- temporary changes of six months' duration to Australian insolvency and corporations laws to assist in managing the sudden economic shock resulting from COVID-19;
- model rules designed to support tenants experiencing hardship due to COVID-19;
- ASX and the Australian Securities and Investments Commission (ASIC) announcing temporary changes to their respective regulatory regimes to facilitate capital raisings for listed entities in response to the economic impact of COVID-19; and
- both Commonwealth and State and Territory governments releasing a number of stimulus packages to help keep businesses afloat (the most well-known of these being JobKeeper, whereby eligible employees will receive $1500 a fortnight for up to six months).

Q3. To what extent has COVID-19 impacted the PE landscape?



Stephen Culhane

Culhane: COVID-19 has transformed consumer behaviour, work practices and previously prevailing expectations of market growth. It has also reduced travel and many elements of international trade (i.e., globalisation). These developments are exposing many portfolio companies to unprecedented stresses and pain. The extent of this pain, and the ability of the underlying companies to survive and for some, thrive, will depend heavily upon efforts to contain the prevalence and spread of the disease and the ability of regional economies to reopen.



Divesh Patel

Patel: Many deals have been affected by the unpredictable economic landscape created by COVID-19. As businesses are put under financial strain, many prospective buyers have terminated or are re-negotiating deals by relying on material adverse change clauses. There have recently been some high profile examples of this including BGH's proposed acquisition of Abano Healthcare by scheme of arrangement and Quadrant Private Equity's proposed acquisition of Total Tools, each of which was terminated prior to closing.

Additionally, risk-adverse investors have pulled back in favour of safer investments, while government bodies such as FIRB have taken measures to ensure that foreign investments are subject to greater scrutiny (see above at question 2).

As a general rule, funds and advisors appear to be focussing on their portfolios and making sure they survive the pandemic (including through cash-flow management and managing any financing covenant beaches), rather than looking for new transactions. It seems likely that the approach to PE investing will change, with firms reanalysing their risk profiles and shifting their focus towards business continuity.

We expect it would be difficult for potential purchasers to value businesses given the unpredictable economic landscape and the impact of Government stimulus measures, likely resulting in valuation gaps when compared with pre-COVID business valuations expected by sellers. This will undoubtedly contribute to the COVID-19 related slowdown in deal flow until the uncertainty abates and valuation expectations between buyers and sellers become more aligned. However, the extent of this impact is yet to be seen.

With big shifts in sentiment occurring almost daily, particularly with recently revived risks of a second wave of COVID-19 in Melbourne spreading throughout Australia, the current situation is dynamic and likely prompting PE firms to wait for a level of stability before transacting. That being said, certain countercyclical businesses are still being transacted in this environment.

Albertha Charles

Charles: We have conducted a survey of more than 80 PE houses to understand the extent to which COVID-19 and the resulting volatility has impacted the PE Landscape from a valuations perspective. With the majority (c. 90%) of respondents having taken a value hit in Q1 valuations, our survey revealed that more than 80% anticipate either a flattening or much more modest falls in their Q2 results.

Both PE firms' decision to bear the bulk of the valuation pain early and the recent rally in public markets would point to a softer landing in Q2. However, we expect significant volatility and uncertainty to continue through into the latter half of the year, if not beyond, due to uncertainty about the economy, bumps in the reopening story with uncertainty about partial lockdowns and second waves of the pandemic as well as the impact on jobs and confidence as government support unwinds. Given this context, building a robust valuation process to assess and reflect this uncertainty is critical.

Q3. To what extent has COVID-19 impacted the PE landscape?

Albertha Charles

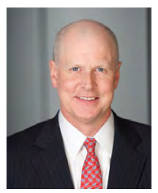
Our survey asked whether (and how) respondents are reacting to this economic uncertainty and market volatility by adapting their approaches to valuation. Without at least some adjustment and augmentation of valuation techniques, the big question for PE firms is whether their results will stand up to intensifying investor, regulator and auditor scrutiny.

Another interesting thing that we have seen changing in the PE landscape due to COVID-19 is the way that deals are done. The enforced 'virtual' nature of transactions has led to some interesting changes such as the use of drones for virtual site visits which we expect will be a trend that will continue beyond COVID-19 due to the efficiencies it offers.

Further deal-related impacts include:

- Exits are widely expected to be delayed to alleviate downside valuation risk;
- Listings will likely be postponed until market volatility settles down;
- Start-ups with cash flow issues could become acquisition targets; and
- Many targets are waiting to see if various European fiscal stimuli will be enough to see them through the downturn before accepting the more expensive PE financing.

Q4. Can you talk us through the best practice measures private equity investors can implement for different liquidity scenarios stemming from the on-going pandemic?



Stephen Culhane

Culhane: Close attention to cash flows and burn rates have become critical. Portfolio companies with access to credit lines generally have sought to draw down these lines in order to maximise liquidity and resources necessary to survive business slowdowns.

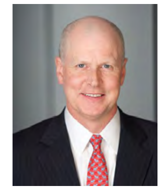
Q5. What other steps do PE firms need to take into consideration to ensure they come out of the crisis in a healthy position?

Stephen Culhane

Culhane: Expense control, efforts to reposition existing businesses for current market conditions and changes in consumption patterns, and seeking to position for both market recovery and potentially prolonged adverse market conditions.

"The enforced 'virtual' nature of transactions has led to some interesting changes such as the use of drones for virtual site visits which we expect will be a trend that will continue beyond COVID-19 due to the efficiencies it offers."
- Albertha Charles -

Q6. What investment strategies and acquisition trends are currently being implemented by PE firms?

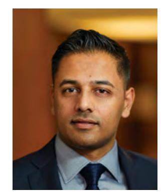


Stephen Culhane

Culhane: Social distancing, health issues/planning, changed retail and travel dynamics are redefining diligence practices and risk assessments of current and prospective portfolio companies and their commercial prospects.

David McClelland

McClelland: Well-funded, UK PE investors are having to 'work harder' to identify and pursue potential investments. Due diligence has become more rigorous at the same time as many PE houses are changing their adopted modus operandi in order to better differentiate their proposition. Most mid-market PE firms are sector agnostic, functioning on a typical portfolio investment cycle of three to five years. However, some are increasingly prepared to adopt longer hold periods, looking for the on-going yield more so than the standard expected three-times return on exit.



Divesh Patel

Patel: The initial outlook for PE firms in 2020 suggested a diverse range of investment strategies driven primarily by take-private transactions and co-investment at the larger end of the market, with corporate carve-outs and similar opportunities all projected to remain relevant.

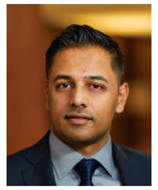
However, following the initial outbreak of the COVID-19 pandemic, the inevitable decrease in PE deals has shifted the focus away from investment to consolidation and stabilisation of portfolios and their balance sheets, with many PE firms instead striving to create value and enhance digitalisation in portfolio companies.

Despite the setbacks, the PE market maintains a relatively positive outlook and investment opportunities are revealing themselves in essential sectors such as healthcare, R&D and pharmaceuticals.

Shagoofa Rashid Khan

Khan: As per the Preqin 2017 report, estimated full-year distributions from India-based private capital funds in 2016 reached USD 13bn, riding on a three-year run of positive net cash flows to investors from funds in the region. On the back of this commercial track record and coupled with legal, regulatory and tax amendments in 2017 and 2018, AIFs are becoming the vehicles of choice in the alternate assets investment space as the structure can be customised to suit diverse investment strategies, sector exposure or target asset classes. AIFs also enjoy a pass through taxation regime and other recent tax amendments bring in a sense of certainty and clarity in the tax implications for AIF investors.

Q7. Which sectors offer the most attractive opportunities and where has fundraising stifled?


Divesh Patel

Patel: The telecommunication, technology and utilities sectors, which saw strong potential at the beginning of 2020, continue to be relevant following the drive for remote working capabilities in the months since the outbreak of COVID-19. Other sectors with strong potential include agriculture, healthcare, R&D and pharmaceuticals, which are all similarly predicted to remain viable opportunities as COVID-19 continues to affect the investment landscape.

In contrast, opportunities in the travel, tourism, consumer and entertainment sectors which were clearly hit hard by the pandemic are challenging in the current unpredictable climate. However, long term investment opportunities are the most viable options for investors looking to tap into these industries and caution will likely remain the name of the game for the foreseeable future.


Albertha Charles

Charles: Opportunities for value creation will really depend on investors identifying businesses which will benefit from long-term strategic growth opportunities rather than businesses that are experiencing a short-term 'sugar rush' as a result of the pandemic. For example, within the healthtech segment where there is a lot of interest, there will be some businesses where life returns to 'normal' post-COVID and the opportunities here are limited. Investors should be looking for assets with opportunities for value creation built on expected longer-term disruption leading to changes in consumer behaviour and appetites.

We are seeing good opportunities for those PE houses able to take minority equity stakes in businesses which have a sound base, have not taken PE capital before but who are looking for an equity injection to help them achieve growth. These opportunities can be very attractive but would need to be investors who are able to support a relatively longer hold period.

For those PE with special situations capabilities, there is also a renewed interest as one would anticipate and an expectation that there will be opportunities to be found within sectors such as retail and leisure where the core business strategy remains sound but severe liquidity issues present opportunities.

It is back to basics for fundraising, in that a quality team with a good track record and a differentiated strategy will raise capital.

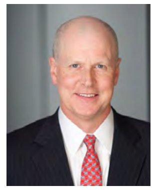
Capital raising in Europe is expected to jump in H2-2020, with a number of 'mega funds' remaining open, but smaller/less experienced GPs are more likely to have paused capital raising. This supports the notion that the bigger players will continue to raise well whilst the smaller ones are the ones to suffer most.

The main reason for this is the inability of LPs to meet GPs face to face and conduct onsite diligence on funds, as the LP bases of most funds are very international and travel has been completely curtailed in the past few months. This has had a greater than anticipated impact on the fundraising market and reinforced that it is the quality of the GP and team that are the most important factor in fundraising, particularly amongst the Mid-Tier and below, and investors are reluctant or unable to make investment judgement without actually meeting the GP face to face given the importance of a good working relationship.

LPs are also more cautious and less willing to "overlook" problems or issues. For example, issues around off-strategy deals or team turnover might not have been deal-breakers pre COVID-19, but will now be heavily scrutinised and may cause LPs to walk away (even where they are existing LPs).

Market data emphasises the "flight to quality" and illustrates that investors find it easier to commit to larger, perceived better quality, managers, in an environment that is in flux, rather than taking a risk on a smaller manager or one you know less well. As a result, bigger funds can trade off their brand name, but smaller/newer funds struggle to 'win' capital from investors the traditional way.

In addition, the power dynamics between GPs and LPs are shifting back in favour of the LPs. In the past couple of years, GPs have been in the driving seat and have been able to drive terms.


Stephen Culhane

Culhane: Attractive opportunities exist for funds that specialise in investing in distressed businesses; credit funds that are in a position to benefit from improved loan pricing; secondary funds that will be able to purchase fund positions that may be sold by investors seeking additional liquidity. Investment activity for secondary funds will likely be subject to a lag until there is more visibility into the pace of recovery, and the extent to which institutional investors will be able to weather more challenging economic conditions.


Nathan Cahill

Cahill: Australia's property market has come off in recent years after an incredible increase in market prices. This has led to a general property downturn fuelled further in some cases by oversupply. The property market and resources are two of the most important markets in Australia which has led to a general softening in economic conditions. This has provided opportunities for PE investment in property related businesses that may be attractively priced. There are also turnaround opportunities in a number of related sectors.

Resources have rebounded after a number of subdued years which in turn has meant opportunities for PE investment in mining services and other related industries. Some GPs predicted these changes and bought cheap during the down period leading to some excellent deal multiples.


David McClelland

McClelland: Whilst some PE investors search out businesses in markets offering accelerated growth, others look for safer passage from proven and robust trading fundamentals. Overall, CSA is witnessing client investors becoming increasingly attracted to businesses operating in sectors driven by favourable structural change be it socioeconomic, technological and environmental or other. PEs appear to have become less willing to invest in businesses where patterns of trade simply follow the cyclical phasing of the developed economy. Family offices are often the exception, taking up longer term positions in traditional businesses able to demonstrate a track record of trade across several historical economic cycles.

From recent project work, two sectors where CSA believes there are opportunities for value creation through strategic, operational or management initiatives in conjunction with private equity are:

- Eyewear products and related eye care services, where consumers are buying branded reading glasses and sunglasses, and making repeat product purchases as one fashion label sparkles and another wanes. Additionally, an ageing population and rising obesity (triggers of diabetes and glaucoma) fuels demand for ophthalmology equipment and services.

Q7. Which sectors offer the most attractive opportunities and where has fundraising stifled?

David McClelland

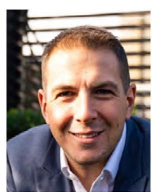
- Online order fulfilment and related building construction services, where the growth of online shopping and home delivery has fuelled demand for logistics warehousing and regional retail distribution hubs. Aside from demand for both permanent and temporary labour as a result of the resident workforce, big-box warehouse construction requires to be fitted out with extensive internal hardware ranging from integrated conveyor belt systems, robotic stacking machinery and equipment, HVAC, CCTV and access control together with all their automated supporting process controls and management information systems.

Shagoofa Rashid Khan

Khan: As India moves steadfastly on its growth trajectory, funding requirements for core and key sectors continue to rise. The Economic Survey of India of 2018 estimated that funding requirement for infrastructure sector to be over US $4.5 trillion until 2040. The Government of India has, by making a commitment of INR 200,000 million for 49% stake, set up the National Investment and Infrastructure Fund (NIIF), under the AIF regime, as a fund for enhancing infrastructure financing in India.

Further, the total stressed assets in the Indian banking sector are estimated to be US $154-210 billion. There is renewed interest amongst offshore and domestic investors in debt funds and debt investments – be it mezzanine debt, mid-market lending, structured credit, participation in stressed or distressed opportunities through an asset reconstruction company (ARC) route, non-banking finance company (NBFC) route or combination structures. A buoyant stock market, strong FDI inflows, significant participation by funds industry and structural reforms backed by a progressive and collaborative government makes India an appealing investment destination.

Q8. To what extent has technology transformed the way private equity targets are identified?



John Cushing

Cushing: It's widely known that whilst the initial target identification process is the most important stage, it's also the most painful for those involved regardless of whether the sector is known or new to the team undertaking the work. In addition, the frequency of corporate updates means that the due diligence that you undertake today could be out of date tomorrow unless you constantly check to see if something or nothing has changed.

Compare this to mnAI. We've spent the last two years aggregating 7.2bn data points from thousands of different data sources to provide one single, easy to use platform – all of which updates in real time.

We've harvested over 55m financial records of UK companies from the last 10-year period, which allows us to use a combination of Bayesian mathematics and Random Forest Modelling to power predictive algorithms. The platform also autonomously tracks 37.1 million Director, Shareholder, Officer and PSC profiles in real time. In addition add into this the latest news and customer reviews coupled with the ability to add individuals or companies onto 'watchlists' and suddenly day-to-day life changes when automation and aggregation are involved. For our clients, this is a game changer.

> *"The frequency of corporate updates means that the due diligence that you undertake today could be out of date tomorrow unless you constantly check to see if something or nothing has changed."*
> *- John Cushing -*

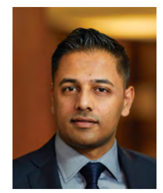
Nathan Cahill

Cahill: As is the case globally, technology is changing PE investment in Australia in a big way. This ranges from when a deal is done right through to its gestation period and ultimately affecting its return.

At the commencement of a deal, due diligence is now more focused on regulatory and technology risk. Given each of these are such a state of flux, it can affect both the price and whether a deal gets done. We have seen a number of PE deals where they have been made or broken on the back of technology and regulatory change. For example, one deal dropped significantly in value when a tax regulation changed making consumers less likely to need that business any more.

We are seeing GPs engage specialist technology advisors (and even employ them permanently) to undertake technology due diligence and advice. We have been advising GPs on how to find additional investment returns through managing technology risk and taking advantage of technological disruption and means to drive down costs and gain market share. We believe that there is great opportunity for increased returns through a focus on technology – which seems to impact most businesses these days.

We are also seeing global flows of capital affecting deal flow and GP fund raising. Going back 15 years, Chinese PE investment was seen as risky and having a large element of unknown. We now see a lot of China-bound PE investment to the exclusion of other more established markets because of the current number of experienced Chinese-focused GPs, the volume of deals, the undeveloped market and the compelling returns in the market.



Divesh Patel

Patel: In our experience, technology has not transformed the way deals are identified in the same way technology has revolutionised some parts of the way in which deals are implemented (see question 10 below). As technology is increasingly leveraged within the businesses themselves and indeed in the implementation of successful deals, there is no substitute for a strong network of connections, closely tuned in to the local market, as a source of introductions to quality businesses that suit PE investors.

Stephen Culhane

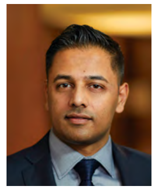
Culhane: The challenges to on-site diligence have been material and have severely adversely impacted investment activity. Technology has been able to make up for some but not all of this limitation on traditional diligence practices.

Q9. What are the main benefits and drawbacks of focusing on sector specialisation?

Stephen Culhane

Culhane: Sector dispersion is much more pronounced under current conditions. Businesses able to capitalise on the pandemic (e.g., certain healthcare businesses), or the increase in working remotely (certain technology businesses), are benefiting significantly are able to raise additional capital. Hospitality, retail, travel and energy related investment programmes are encountering much more turbulence.

Q10. What are the advantages of using machine learning and artificial intelligence?



Divesh Patel

Patel: Recent advances in machine learning and artificial intelligence have created tools that can provide faster, more accessible and cost effective implementation of transactions. In contrast to basic search engine or computing functions, AI technologies can use algorithms to complete tasks and learn from previous experiences to provide faster and more accurate assistance.

AI technologies are rapidly becoming a useful and practical tool to support PE firms in otherwise tedious, lengthy and expensive tasks and will continue to challenge the way PE transactions are conducted. For example, AI tools such as Luminance and Kira enable the rapid scoping of a large data room of documents to identify specific provisions in particular agreement (for example, identifying "change of control" or "assignment" provisions in commercial contracts). The AI can be pre-trained to identify key agreements or provisions within a large number of documents, and access those documents for efficient review by legal teams.

Tools such as these can be applied to multiple situations such as pinpointing terms, understanding an organisation's relevant obligations and even the impact of COVID-19 by examining material adverse change clauses in contracts.

John Cushing

Cushing: For those in the industry, the issue doesn't just lie with the scarcity of data, but also in the fragmentation and expertise required to generate the right insight. Machine learning and artificial intelligence overcome both of these problems through the provision of real time insight which can be generated quickly and easily and most importantly, on a repeatable and scalable basis.

A good example of this lies at the start of the investment cycle: target identification and due diligence. Our industry wide research concluded with the startling fact that it takes (on average) 126 hours of research simply to find a target to talk to and the highest we heard of was nearer 170 hours of research per analyst. In short, it makes for an unscalable, expensive, human reliant, capital inefficient problem that technology and AI can solve.

Q11. How can opportunities be found within areas that are notorious for their high valuations such as the technology sector and emerging start-ups?

Albertha Charles

Charles: Historically, the technology and software industry has proved relatively resilient to macroeconomic shocks and cycles, and is expected to weather the COVID-19 storm better than most industries.

One of the bases for the underlying resilience is that the majority of market spend is derived from medium-sized and large companies that are generally in a better position to withstand an economic downturn than small businesses.

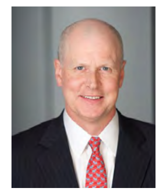
However, strategic changes in those backing companies may mean these strategies no longer enjoy the financial support they might have as costs tighten.

Vendors with a higher dependency on one-off licence sales (and a lower component of recurring revenue), or applications that are exposed to the most challenged industry verticals, may fare less well through this crisis, and represent turnaround opportunities to the right buyer.

Earlier stage, high growth and cash poor companies may face liquidity challenges. Uncertain growth prospects cast doubt on valuations, hindering their ability to raise new investments. Depending on the duration of the pandemic, this could impact the number of start-ups that can still successfully scale in the coming years.

Sectors in particular focus include healthcare (primarily healthtech which focuses on pandemic response infrastructure) and digital products and services that support continuity initiatives, particularly during times of extreme economic and social disruption. There is a growing realisation of the value in, and need for, a more sophisticated pandemic response infrastructure, capable of mitigating health crises, but also for continuity solutions that can help businesses, schools and the public maintain some level of normalcy amid social distancing and shelter-in-place initiatives.

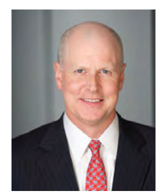
Those that are able to pivot find themselves adopting two technological themes from the pre-pandemic world: digitisation and automation – the use of digital technologies to change a business model and the use of technology to perform a process with minimal human assistance. Finding sub-sectors within these that are expected to see sustainable value creation stories beyond the immediate impact of the pandemic will be key.



Stephen Culhane

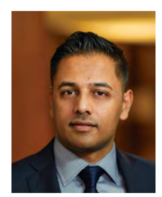
Culhane: Opportunities depend to a great extent upon how particular businesses are positioned for our new world. See question 6 above.

Q12. What are the main challenges and opportunities when investing in distressed businesses?



Stephen Culhane

Culhane: Most immediate challenges are the extent of the current pain, the anticipated duration of that pain, and the ability to survive a potentially protracted recovery. These factors define the ability of those distressed businesses to avoid bankruptcy, and to secure additional debt or equity financing.



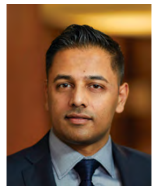
Divesh Patel

Patel: It goes without saying that the most attractive feature of investing in a distressed business is the opportunity to purchase the business or its debt at a steep discount and, by working to turn the business around, subsequently amplifying the value of the business.

However, taking on distressed businesses comes with many challenges, not least of which is the complexity that comes with turning a business around. Restructurings are complex legal and financial processes that require a lot of time and investment (in time and in advisors' fees). Additionally, bankruptcy and insolvency are adversarial processes often with uncertain outcomes, particularly in an uncertain economic climate.

There are likely to be many opportunities for distressed investing coming from the sectors hardest hit by the pandemic – transport, tourism, hospitality, leisure, leisure, retail and commercial real estate – though there are few sectors that have not been affected.

Q13. What key trends do you expect to see over the coming year and in an ideal world what would you like to see implemented or changed?



Divesh Patel

Patel: Given the high levels of dry powder amongst PE funds and intense competition for value investments in private companies, we anticipate the popularity of public-to-private bids to continue particularly at the larger end of the market. PE managers are expected to seek out bilateral transactions for assets, rather than competing with their contemporaries in auction processes in order to provide alternative forms of investment in attractive businesses through private credit or special situation funds.

Until IPO markets open up again, we anticipate that the low proportion IPO exits will continue.

Warranty & indemnity (W&I) insurance policies are commonplace in Australia but are tending toward more extensive exclusions (including broad COVID-19 related exclusions), thereby limiting coverage and driving counterparties to look for other forms of contractual protection for those excluded matters or otherwise reconsidering the cost/benefit of a policy entirely. In an ideal world, we would like to see more value being derived from W&I insurance policies for buyers, with narrower exclusions applying to potential future claims.

John Cushing

Cushing: From the inception of the Bloomberg terminal in 1981, listed markets have seen an explosion of technology to help with every aspect of day-to-day transactions. Until recently though, the same could not be said about the unlisted markets, despite the value under management being in the trillions.

mnAI therefore marks a turning point in the provision of technology that enhances productivity and increases the chances of greater returns through the more efficient identification of companies. Machine learning and AI won't just mean better, more efficient and faster decisions, it will also mean that investors can scale their due diligence and administrative processes, reducing cost and enhancing returns – and we're proud to be the vanguard.