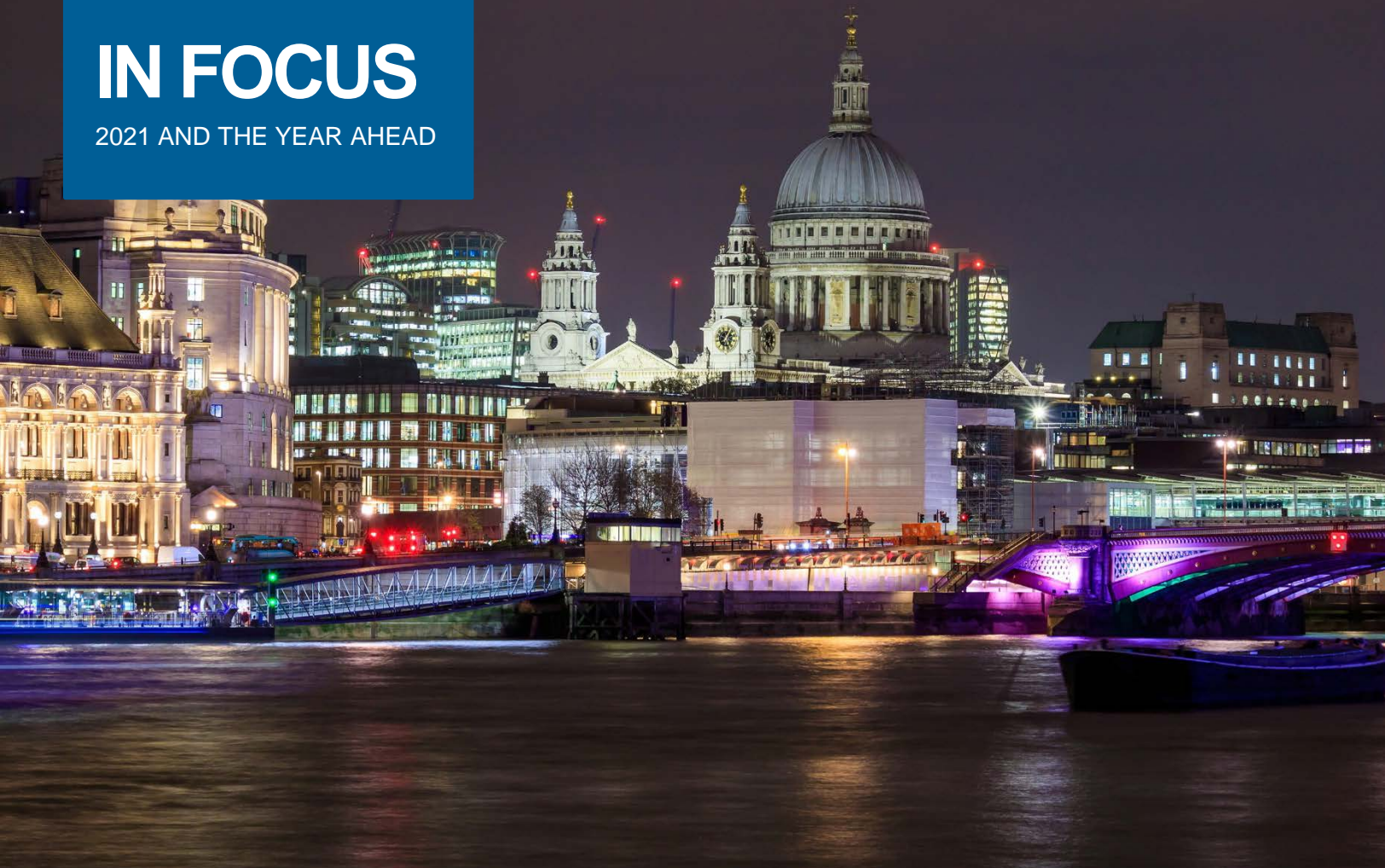


ROPES & GRAY

IN FOCUS

2021 AND THE YEAR AHEAD



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## THE VIEW FROM ROPES & GRAY

Ropes & Gray's position in the market as the preeminent international law firm for private capital clients meant that 2021 was a busy and successful year for the London office. The private capital market hugely rebounded in H2 2020 and 2021 and achieved new record milestones. PE funds saw a remarkable surge in deal and fundraising activity. Capital piles have mushroomed and dealmakers posted new records for buyout and exit activity. There was an eagerness to make up the ground that was lost in 2020, spurring deals across the board. Also, the industry adapted to executing deals remotely, providing even greater reach and opportunity.

At Ropes & Gray, we completed multiple transactions across our core practice areas of private equity, M&A, finance, real estate and special situations for leading European, US and Asian clients. We saw significant activity across the life sciences, healthcare, TMT and consumer sectors, all of which are a focus for us.

We were pleased to be named as Transatlantic Law Firm of the Year at the British Legal Awards and as Finance Law Firm of the year at The Lawyer 2021 Awards.

In response to strong client demand, the firm has further strengthened its London PE team with the election of Victoria McGrath as partner, as of 1 November 2021. We have the highest proportion of female partners in any law firm private equity practice in London. We are also delighted to welcome Will Bryant (Private Equity Real Estate), Chris Agnoli (Tax) and Sean Seelinger (Litigation and Enforcement) to the partnership this year.

You will be able to see examples of some of our 2021 representative matters and also read our reflections on 2021 in more detail on the following pages, together with our current expectations for 2022.

We would like to wish you all a Happy, and most importantly Healthy, New Year and rest of 2022.

**Ropes & Gray**

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# KEY DEALS OF 2021

Q1  
21



Bridgepoint on its investment in IDHL, a digital marketing agency



Avista on its investment in Cooper Consumer Health, a French pharmaceutical company



Baring Private Equity Asia on its US\$1 billion+ disposal of Lumenis' Surgical Business to Boston Scientific



McAfee on the sale of its enterprise business to Symphony Technology Group



Liberty Latin America's LCPR in connection with the issuance of US\$820 million senior secured notes for the purposes of repricing an aggregate US\$500 million Term Loan B



Advent International Corp. on its US\$2.7 billion acquisition of NielsenIQ, an industry leader in global measurement and data analytics



American Industrial Partners on its acquisition of Attindas Hygiene Partners, a global personal care products company



Liberty Global on the financing arrangements for its US\$7.7 billion public-to-private acquisition of Sunrise Communications Group



ERM, the world's largest pure-play sustainability consultancy, on its sale to KKR



NeoGenomics on its acquisition of Inivata, a clinical cancer genomics company



Inflexion on its sale of Reed & Mackay, a premium corporate travel management and events business



Sixth Street on its platform joint venture with Henley Investment Management and its first acquisition of a large office campus in West London

Q2  
21



QuadReal on the upsize and extension of the projected €4bn European logistics development platform, CDP I, sponsored by global logistics operator, GLP



Aurora Acquisition Corp. on its merger with Better Holdco, a digital-first homeownership company



Cove Hill Partners on its sale of auctions platform LiveAuctioneers to ATG



Next Alt S.p.A. on the financing aspects of an all cash offer for Altice Europe valuing the company at €5.7 billion

# KEY DEALS OF 2021

Q3  
21



Partners Group on its acquisition of Pharmathen, a European pharmaceutical company



WellSky Corporation, a portfolio company of TPG Capital and Leonard Green & Partners, on its sale of WellSky International, a UK-based medicines management company



ICG in connection with an investment by Aeternum Capital, Government Pension Fund Norway, Vind, GIC and certain existing institutional investors in Visma



Bridgepoint on its acquisition of Achilles, a supply chain risk and performance management business



Avista, Nordic Capital and Acino on the sale of global pharmaceutical company Acino



Sixth Street on its acquisition of 15 buildings within a major Lisbon office campus



Aquiline on its majority investment in Quicken, Inc., a personal finance software platform



GHO Capital on its majority investment in Clearview Healthcare Partners, a strategy consulting firm focused on the life sciences sector



Oakley Capital on its sale of Tecinsights, a microelectronics reverse engineering business



GIC on its acquisition of a 40% interest in The Oxford Science Park from Magdalen College, Oxford, and on a strategic joint venture between GIC and Magdalen College



Partners Group on its JV with ARA Dunedin, to build up a £250m UK logistics platform and on its first acquisition of a seven asset portfolio



3i Group plc and GartenHaus on the acquisition of Outdoor Toys, one of the UK's leading online retailers of outdoor garden toys

Q4  
21



Permira Credit and other senior lenders in relation to the unitranche financing supporting EQT's acquisition of Parcel2Go



TPG on its acquisition of a majority stake in Nintex, a provider of process management and automation software



Livingbridge on its investment in RealVNC, a leading vendor of remote access and remote support software



Baring Private Equity Asia on its acquisition of Tricor Group, Asia's leading business expansion specialist

## 2021 NUMBERS UP CLOSE

### LONDON

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**105** M&A  
TRANSACTIONS

Enterprise value of

**GBP£97**

Billion+

### GLOBAL

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**287** M&A  
TRANSACTIONS

Enterprise value of

**US\$230**

Billion+

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**9** of the **10**

Largest Global PE Funds

– PEI 300 2021



**Top 10**

Global and US Buyouts  
+ Exits by Deal Count

– MergerMarket 2021

# ROPES & GRAY LONDON OFFICE AWARDS & RECOGNITION 2021



## Transatlantic Firm Of The Year

*Winner, British Legal Awards 2021*



## Finance Team Of The Year

*Winner, The Lawyer Awards 2021*



## Global Data Review Elite Law Firm

*GDR 100 2022*



## US Law Firm Of The Year

*Shortlisted, Legal Business Awards 2021*



## City Law Firm Of The Year

*Shortlisted, The Lawyer Awards 2021*



## Innovation in Enabling Resilient Business

*Shortlisted, FT Innovative Lawyers Europe 2021*

## #2

## UK law firm with the most satisfied staff

*RollOnFriday Law Firm of the Year 2021*



## The Best Organisational Response to COVID-19

*Shortlisted, People in Law Awards 2021*

## #3

## UK law firm with most female equity partners

*Law.com 2021*



## Finance Team Of The Year

*Shortlisted, Legal Business Awards 2021*



## Most Effective Pro Bono Partnership

*Shortlisted, LawWorks Pro Bono Awards 2021*



## High Yield Team Of The Year

*Shortlisted, IFLR Europe Awards 2021*



# 2021 REVIEW AND MARKET OUTLOOK

## INVESTMENT TRENDS

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As referred to in our introduction, 2021 saw a remarkable surge in private equity activity as the industry sought to take advantage of price depression and to make up for lost time caused by the pandemic. As we look forward to 2022, the question is whether these high levels of activity will continue. Whilst there is always an opportunity for investors to pick the right companies in the right sectors that can grow and even prosper through market perturbations, the pandemic has created certain circumstances that could have an impact on valuations this year. The changing shape of global supply chains—due to demand-driven shortages and subsequent bottlenecks, as well as rising commodity prices—will influence the targets being considered. Headwinds that may affect supply chain costs, from inflation to the threat of interest rate rises, will likely pose additional challenges for portfolio companies in the months ahead, especially those that have taken on increasing levels of debt to navigate the pandemic.

In relation to supply chain, as economies rebooted post-lockdown and demand skyrocketed, manufacturers and distributors, particularly those that mothballed operations when demand shrank under lockdown, have struggled to bring production back to pre-pandemic levels or to match the new higher levels of demand in the face of labour shortages, tight commodity supplies and a squeeze on logistics capacity. In Europe, Brexit added an additional layer of complexity, especially for sectors that relied on workers entering the United Kingdom from Europe. The large pools of dry powder available to PE managers may mean that it continues to be a seller's market, but firms may walk away from deals if they are unable to build sufficient comfort on supply chain. However, as always, there are also opportunities. Opportunities to reengineer and near-shore supply chains are emerging, as are options to invest in exit logistics and distribution assets, many of which have strong technology angles.

Rising inflation has been a direct consequence of the global supply chain bottlenecks in 2021 and central banks are signaling their intentions to tighten liquidity by scaling back bond-buying programmes and, in time, increasing interest rates. In addition to the direct consequences of inflation on portfolio and target company profitability, rising inflation and its role as a spur for interest rate hikes could also affect portfolio company capital structures. Low interest rates have given companies a degree of breathing room to deleverage, post-pandemic panic, with minimal disruption. However, should rates rise, capital structures that were sustainable in a low-rate environment could start to dip underwater—especially in leveraged PE-backed companies. PE managers will focus on refinancing as a matter of priority to push debt maturities and avoid the risk of a liquidity cliff edge. Overall, pricing pressures and supply chain issues are no doubt on the radar for PE firms and may signal some turbulent waters ahead.

## LEVERAGED FINANCE

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It's been a relentless year in leveraged finance markets which remained buoyant in 2021, hot on the heels of a booming M&A market and fueled by government-induced liquidity.

While threats to the global economy in the form of inflation, rate rises, supply chain disruption, new COVID variants and tapering can't be ignored, it's difficult to see a material slowdown in the level of M&A, and leveraged finance volume accordingly. The reality is that private equity fund raising and assets under management continue to snowball and by design this sector cannot sit on its hands.

We expect sponsors to continue to evolve their practices around ESG issues and for this to become a key part of up front diligence for sponsors and debt providers. ESG reporting by borrowers and the inclusion of requirements to assess performance against objective KPIs which track into an ESG margin ratchet is likely to continue its trend to mainstream in the European leveraged finance markets in 2022, and the US won't be far behind.

Sponsors are increasingly turning to credit funds for larger ticket financings; deal execution with a single institution is often a lot cleaner and there is a lot of comfort in certainty of terms without exposure to pricing flex in volatile markets. The size and scale of the latest funds, together with the willingness to club, acceptance of looser covenant protection and hunger to deploy shown recently by the larger asset managers suggest 2022 could see unitranche financing turn up the heat on widely syndicated TLB and bond products.

# 2021 REVIEW AND MARKET OUTLOOK

## REAL ESTATE

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Activity levels across many real estate sectors proliferated in 2021 with investments in 'Beds, Sheds and Meds' being centre stage and which comprised the majority of our transactional activity. This area will continue to be busy but with some other trends/highlights also coming to the fore.

### Logistics and light industrial

Investment activity in the logistics sector continues to grow apace and the signs are very much that this will continue through 2022 supported by an extremely robust occupational market. Global capital in the UK and European markets will continue to dominate this sector. The breadth of online retail consumption, the increasing trend to home-working and the associated socio-demographic habits that flow have fueled a surge in demand and yield compression because of the sheer weight of capital, amid material supply constraint. We expect to see more opportunistic repositioning and development opportunities in the sector, throughout both the UK and continental Europe, as the year progresses.

### OpCo investments

Among real estate capital partners we are seeing a growing trend of making equity investments into real estate operating companies and managers. We expect that these types of OpCo investments will grow even more popular among PERE investors of all risk profiles and size. PERE investors adopting this strategy are seeking to get ahead of the race to scale and secure first offers and deal exclusively with the most successful operators, most often through meaningful minority equity positions in their businesses, alongside an underlying seed acquisition for the combined platform. Data centres and life sciences could be key sectors to watch for this tactical investment shift as 2022 progresses.

### Real estate life sciences

2021 saw the popularity of real estate life science investments continue to skyrocket. There is a wall of capital targeting real estate life sciences from a broad spectrum of investors attracted by the strong post-pandemic fundamentals that underpin the sector. In 2022, we expect to see investors continue to target this sector focusing on the existing and emerging UK and European clusters for science and technology, including the 'Golden Triangle' of London, Oxford and Cambridge. Given the relative shortage of stock compared to other asset classes, we expect to see the conversion of existing office and retail assets to lab enabled uses and joint venture development partnerships with universities and public sector bodies.

### Real estate special situations/distress

Many predicted publicly that we would see distress permeating the real estate market in the late part of 2020 and early 2021. That did not happen on the scale that many PERE investors anticipated. As we progress into 2022, we anticipate that we will see an increasing number of real estate special situations coming to the market, particularly in the hotel, hospitality and retail sectors. This will only increase as we progress towards the end of one of the longest economic cycles in living memory.



# 2021 REVIEW AND MARKET OUTLOOK

## FUNDS

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As 2022 gets underway we wanted to look ahead at the areas where we, as private funds lawyers, are expecting significant activity from both GPs and LPs. Whilst the world faces the sustained effects of COVID-19, the alternatives market remains resilient and continues to enjoy favorable fundraising conditions across asset classes despite political, societal, tax and regulatory challenges and uncertainty. We expect these conditions to continue in 2022 and with a number of blue-chip names due to launch new vintages of their flagship products the sector is poised for record fundraising figures.

In addition to big-name fundraises, we anticipate a steady flow of new alternatives product launches from both first-time sponsors and platform expansions by household names. Although it has been more challenging and time-intensive for emerging managers and new strategies to raise capital in the virtual due diligence environment, we believe that the market is gradually adapting and are hopeful that building new investment relationships virtually is becoming more achievable for GPs and LPs alike.

When considering strategy popularity, as in 2021 we predict high demand for funds in the technology, logistics, healthcare and renewable energy sectors, with the themes of impact and sustainability also ongoing as key focus areas. We think that GPs will continue to look at alternative strategies (such as small-cap, growth and special/tactical opportunities vehicles) including a broader size ranges of funds to accommodate these. The continued proliferation of credit fund products is also expected, with an emphasis on distressed, special opportunity and credit solution strategies, poised to take advantage of any downturn in the market. With so much choice for LPs and the unprecedented amount of dry powder in the market we expect one of the biggest fundraising challenges for GPs will be to convince LPs that their capital will be put to work quickly and that the intensified competition for assets will not overly impact returns.

From an LP perspective we anticipate further increases in LP desire for greater transparency and control over the direction of fund portfolio companies resulting in more fund-level reporting and investor interaction requirements for GPs. At the same time, LPs continue to be focused on co-investment and direct/strategic opportunities sourced by their GPs and invested outside of the funds they are invested in. We saw an uptick in these transactions in H2 of 2021 and along with club deals and joint ventures expect them to remain prevalent in 2022.

The global focus on sustainable and ESG-driven investment will also continue to drive activity this year and beyond. Post COP26, private fund sponsors have a renewed mandate to act as agents of change with regards to ESG and climate matters and they are supported in this by LP demand. Whilst Europe continued to lead the field in 2021 with legislation such as SFDR and the Taxonomy Regulation coming into force, in the US fueled by the Biden administration the SEC is ramping up efforts to enforce ESG disclosures and we predict further progress in 2022.

Outside of primary fundraisings we saw record numbers of secondary transactions in 2021, with GPs particularly favoring single-asset continuation funds although we note that in the second half of 2021 a large number of LP portfolio transactions also successfully entered the market. We expect these high levels of secondaries activity to persist as the pandemic disrupts exit timeframes, impacts global economies and secondary-focused funds continue to raise record amounts of capital.

Finally, we anticipate the volume of GP-stake investment activity to continue in 2022 as sponsors seize these liquidity opportunities to fund platform expansions and enable founders to monetize their interests. Whilst historically these deals have been more common in the US, over the course of 2021 we have also seen significant GP-stake deals in Europe and expect a further wave of European GPs to consider these in 2022.

# 2021 REVIEW AND MARKET OUTLOOK

## RESTRUCTURING & INSOLVENCY

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The European distressed market was quiet throughout 2021, with unprecedented levels of liquidity in the market and loose financing terms, there is little urgency for many companies to address over-levered balance sheets, and few documentary triggers. Against this backdrop, many companies managed to complete successful refinancing transactions and avoid coming to the restructuring negotiation table.

However, there are significant market pressures as we move into 2022, any one of which could trigger increased levels of distress, including:

- COVID-19: the ongoing threat of the pandemic recovery being derailed, particularly as new variants of SARS-CoV-2 emerge;
- global supply chain disruption: the ripple effect across both businesses and consumers, as well as the steep increase in shipping costs seen over the course of 2021;
- government support: especially as many government stimulus measures start winding down;
- inflation: persistently high levels of inflation as a result of a number of trends, including labour shortages, rising labour costs, higher raw material costs and higher energy costs; and
- Brexit: the adaptation of businesses both in the UK and across Europe, with the effect of Brexit having been somewhat masked in 2021 by other market pressures.

What to watch in 2022

In spite of the numerous market pressures, we are yet to see significant volumes of distress. Although cracks are starting to appear, continued availability of government support and significant liquidity in the market may mean that the early part of 2022 looks very similar to 2021. In the absence of distress, we anticipate a continued refocusing by distressed investors on a broader range of opportunistic investments, including in private and illiquid situations.

Moving further into 2022, market pressures and a need for companies to address increased leverage and pending maturities may yet result in increased levels of distressed and restructuring activity.

## REGULATORY

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From a regulatory perspective, 2021 saw some significant changes, most notably around ESG with the introductions of the EU's Sustainable Finance Disclosure Regulation. ESG will continue to be a key area of focus in the UK and the EU during the course of this year and beyond, with the implementation of the EU Taxonomy and various UK rules on the subject.

2021 also saw the introduction of new rules impacting how fund managers market their funds in the EU. These rules have various consequences and will continue to evolve during 2022. COVID-19 continued to impact the industry and as managers moved to more hybrid working arrangements this presented different challenges from a regulatory perspective and is an area which the FCA was focused on.

Looking ahead to 2022, in addition to the above, key areas asset managers in particular should be focused on are the LIBOR transition, changes in capital requirements, financial crime, operational resilience, the regulation of the crypto-asset market and culture, diversity and inclusion.

# 2021 REVIEW AND MARKET OUTLOOK

## TAX

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In the UK funds arena, we can look forward to more initiatives designed to bolster the industry in 2022 as the Government continues its commitment to making the UK a more attractive location to set up, manage and administer funds.

The first major success has been the UK asset holding company (AHC) regime which is likely to lead to the increased use of UK holding companies in fund structures. In selecting the jurisdiction for the holding company that makes investment, account is taken of the eligibility of that vehicle for a wide range of double tax treaties to minimise underlying withholding tax and non-resident capital gains tax in investee jurisdictions (as well as minimising any tax leakage in the entity). However, it has become increasingly difficult for holding companies to benefit from double tax treaties due to the requirement for 'commercial purpose' now incorporated into double tax treaties and case law challenges as well as a possible ATAD 3 challenging the use of shell entities as holding companies. The AHC regime combines simplicity with a regime that should allow tax neutrality for investors in a fund holding investments through an AHC. In most cases it will provide a tax regime which is at least as favourable as Luxembourg or Ireland whilst allowing sponsors with a UK presence a more robust answer (i.e. they have commercial purpose and substance) to the challenge presented to obtaining Treaty access for holding companies.

We should also expect to see, as part of the wider funds review, measures to encourage the growth of fund administration services, the possible introduction of bespoke partnership taxation rules to provide more certain tax outcomes, a review of the UK's DTTs to improve access and a review of VAT and management fees to remove any disadvantages to locating funds in the UK.

Finally, UK corporation tax rate has been comparatively low for more than a decade but, in what looks set to be something of an international trend, will increase from 19% to 25% from 1 April 2023. The UK base has also broadened significantly since the last time the rate was this high. This will mean an increased focus in UK private equity transactions on the remaining reliefs that are available, particularly interest deductibility but also transaction costs and employment related costs. This may mean we see sellers increasingly asking for the value of reliefs triggered on a transaction exit to be paid for, and buyers undertaking post-acquisition reorganisations to ensure that interest deductions and taxable profits are aligned so far as possible to maximize deductibility after taking account of corporate interest restriction rules.

# 2021 PRO BONO

## Windrush Compensation Claims

We have assisted 15 victims of the Windrush scandal with claims for compensation for the injustices suffered due to government policy. The project was shortlisted for **Most Effective Pro Bono Partnership** at the Law Works Awards 2021

## 2021 Pro Bono Excellence Award

Ropes & Gray earns award from Lawyers Clearinghouse in recognition of the firm's longstanding dedication to pro bono service and for significant contributions in the creation and support of The COVID Relief Coalition



## KINDuk

We are now in our 4<sup>th</sup> year helping undocumented minors obtain leave to remain and citizenship in partnership with Kids In Need of Defence UK

## Assistance to Afghan Asylum Seekers

As the tragedy in Afghanistan unfolded in August, our corporate transactional lawyers stepped up to assist those in need working with The Immigration Law Practitioners to provide urgent advice to those seeking refuge in the UK

## Supporting Business Start Ups

We provide much needed legal advice to founders at the crucial early stage of their business development through two projects led by our corporate lawyers: qLegal (social businesses) and Imperial College Tech Incubator (green tech start ups). The Imperial project was also shortlisted for **Most Effective Pro Bono Partnership** at the Law Works Awards 2021

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