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Tioopo Capital Founders' Perspectives Letter

Challenges and Opportunities for Businesses and Private Equity in the UK and France

Since Tioopo's creation in early 2021, right after the COVID - 19 crisis - a period of extended quantitative easing, that drove up valuations - our core conviction has been that investors would return to value investing by focusing on companies with **defensible market positions**, strong value-added offerings, and **solid cash generation** supported by **reasonable valuations and prudent leverage**.

We anticipated significant political, economic, and fiscal changes, though we couldn't predict their exact forms or magnitudes. Guided by this belief, we executed on our first acquisitions. As time has passed and market dynamics have evolved, our **investment thesis has consistently been reaffirmed**.

What has unfolded since 2021 has validated our approach. Tioopo's portfolio has demonstrated strong performance, underscoring the strength of the strategy. Recent events, including the UK's latest budget and the political challenges in France, further support our view that **businesses with higher margins and defensible positions remain well-positioned** in today's uncertain environment.

In this paper, we reflect on the key developments of 2024 and their impact on private markets.

The latest UK budget has caused waves, notably impacting businesses through increased employer national insurance contributions. Looking back at history, since 1911, the UK's National Insurance system has funded public services while impacting employment costs. Gordon Brown's 2002 NI hike, raising contributions by 1% each for employees and employers, totalling 2%, generated £8.4 billion annually, showing how modest tax increases can bolster public finances. **Private equity responded by shifting toward niche manufacturers and specialized service providers** able to absorb or pass on costs. High know how manufacturing firms and specialty service providers, operating in relatively inelastic markets, maintained margins through pricing power and product differentiation.

Today, the UK faces similar dynamics. Data from the Institute for Fiscal Studies (IFS) suggests the latest NI increase, around 1.2 percentage points for employers, may reduce UK employment by about 0.5% (approximately 200,000 fewer jobs) by 2028 - 2029 while raising approximately £5 billion per year. This pressure has already begun to materialize: the S&P Global flash UK purchasing managers' employment index fell to 45.8 in December, down from 48.9 in November, marking the fastest decline in private sector employment since January 2021, according to the Financial Times.

For example, a UK SME with 80 employees earning an average salary of £45,000 would see its annual employer National Insurance (NI) expenses increase by

£82,560 due to the higher NI rate and lower threshold, reducing the firm's EBITDA margin by 0.83 percentage points.

Although a 0.83 percentage point decrease may appear modest, even small margin compressions can influence pricing, hiring, and research and development decisions over time.

In response, companies may refine operations, pursue automation, or focus on niche markets where specialized offerings and less price-sensitive customers help mitigate these fiscal shifts. For private equity investors, these patterns underscore **the importance of selecting portfolio companies resilient to rising tax burdens** - businesses that historically maintained operational agility, product uniqueness, and robust pricing strategies have been better positioned to weather NI adjustments with minimal disruption.

On a more positive note, the Bank of England's recent rate cuts, from 5.25% to 4.75% between August 2023 and September 2024, aim to support business profitability and investment by easing corporate pressures. Historically, when monetary policies fluctuate significantly, the market reacts sharply. In the 80s, rates soared to 17% to combat inflation but curbed economic growth, while cuts from 2009 to 2015 spurred private equity activity.

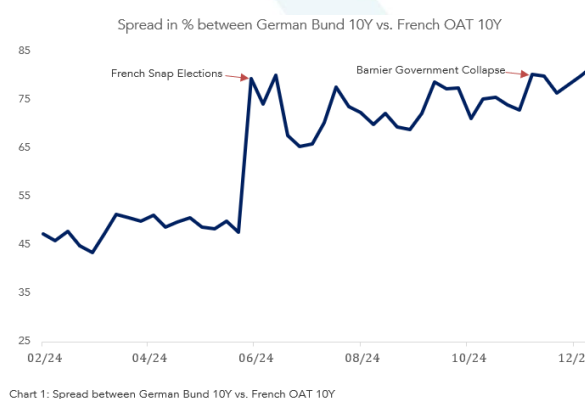
Similarly, the European Central Bank (ECB) reduced its main interest rate from 4% to 3% during the same period. While these adjustments may seem minor, **even small rate changes improve lending conditions.**

Both banks expect inflation to reach 2% by mid-2025, creating a favorable environment for deal-making. Further reductions - toward 4.0% in the UK and 2.5% in Europe - could unlock refinancing opportunities, drive leveraged buyouts and strengthen capital structures.

Across the Channel, 2024 proved to be a politically turbulent year for France, marked by two major political events. In June, President Macron dissolved the National Assembly after legislative deadlock, prompting early elections that resulted in a highly fragmented parliament. The far-left New Popular Front secured around 31% of seats, Macron's centrist Ensemble coalition obtained 28%, and the far-right National Rally captured 25%, with the remaining 16% divided among The Republicans and smaller parties. This fragmentation led to political instability, culminating in December 2024 when Michel Barnier's government collapsed following a no-confidence vote.

The political turmoil extended to the financial sphere. Moody's downgraded France's credit rating from Aa2 to Aa3, citing concerns over fiscal consolidation and prolonged uncertainty. Historically, such downgrades raise corporate bond yields by 8 to 12 basis points, and with the France-Germany 10-year yield spread widening to 80.2 basis points (see chart 1), well above the typical 20 - 40 basis points in stable periods, borrowing costs for French corporations are expected to rise. While not a crisis scenario, the increased costs are subtly reshaping deal valuations

and financing conditions. The widening bond yield spread reflects heightened risk perception, rising borrowing costs, and declining investor confidence, potentially impacting economic stability and investment attractiveness. Consequently, private equity investor sentiment may weaken, **creating new opportunities in the market.**



Tioopo's 2025 Outlook:

Capturing Opportunities Amid Complexity

As Europe faces rising employer taxes in the UK, political instability and credit downgrades in France, and shifting interest rates, the private equity landscape is being reshaped. These challenges underline the importance of disciplined investment and a focus on operational resilience.

In the UK, rising costs pressure corporate margins, but businesses in defensible niches with pricing power remain well-positioned to adapt. Similarly, France's political and financial uncertainty, while increasing borrowing costs, presents opportunities to acquire resilient, high-margin businesses at favourable

valuations. Meanwhile, monetary easing in both the UK and Europe is improving lending conditions, creating a conducive environment for refinancing and deal-making.

Tioopo Capital's strategy centres on identifying smaller, profitable companies with defensible market positions, strong cash generation, and operational agility. By focusing on these resilient businesses, Tioopo aims to navigate risks while capitalizing on the opportunities arising from market dislocations. **As 2025 unfolds, our disciplined, hands-on approach ensures we are well-positioned to deliver value for investors and support the growth of exceptional companies.**

About Tioopo Capital

Co-founded in 2021, Tioopo Capital is a pan-European investment fund dedicated to SMEs. Guided by entrepreneurial spirit and long-term thinking, Tioopo partners with management teams to realize strategic visions. Drawing on historical perspective, economic awareness, and political foresight, we strive to deliver sustainable value creation through shifting market conditions.