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Why American PE keeps winning

And what it tells us about UK public markets

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A few weeks ago, I wrote about the wave of UK companies leaving our public markets – SEGRO, easyJet and Bodycote among them. The post prompted a lot of conversations, both online and offline, and an interesting question kept coming up: why is it always American private equity (PE) doing the buying?

It's a good question. And the answer starts with something most people outside corporate finance rarely think about: the tax benefit of debt.

When a company borrows money, the interest it pays is tax deductible. At the UK's current corporation tax rate of 25%, every £100m of interest a company pays on its debt is worth £25m in annual tax savings. This isn't an accounting trick or a loophole – it's a fundamental feature of how the tax system works, and it creates real, quantifiable value for companies willing to use it.

PE firms use it. Aggressively. The typical US leveraged buyout runs at around 5x EBITDA in debt, broadly five times annual operating earnings. A conservatively financed listed UK company in the same sector might carry 1–1.5x its EBITDA in debt. That's a difference that can run from millions to billions of pounds – and that equates to millions of pounds in annual tax savings being left on the table.

So why don't UK-listed companies just take on more debt and capture the value from it? The simple answer: because UK public markets punish them for it. Rating agencies, institutional fund mandates, equity analysts and the entire infrastructure of UK public market investing have, over decades, converged on the view that leverage equals risk and risk is bad. A CFO who runs a balance sheet at 4x EBITDA will find their company re-rated, their cost of equity rising and their shareholder base changing in ways they don't want. The UK public market is structurally biased against the very mechanism that creates the PE advantage.

So, PE firms can pay a 30–40% premium to take a company private – which is what you see in most of these UK buyouts – and still generate strong returns, because they're unlocking balance sheet value that the UK public market was never pricing in the first place.

Now, why American PE firms specifically?

Partly culture. Debt doesn't have the stigma in the US that it does in the UK. The leveraged buyout was essentially invented in the US. KKR's takeover of RJR Nabisco in 1988 – still one of the most audacious deals in financial history – established the playbook the entire PE industry has followed since. US companies have had four decades to refine their models, build their networks and develop the institutional confidence to run higher leverage than their European counterparts tend to.

Partly infrastructure. The US high-yield bond market is the deepest and most liquid in the world, and it exists, in large part, because US PE created the demand for it. When Apollo Global Management wants to finance an acquisition, it can access capital at a scale and speed that most European buyers simply cannot match.

And partly opportunity. UK-listed companies have traded at a significant discount relative to US equivalents for years. When you combine underpriced assets with access to deep, cheap financing and a structural tax advantage you know how to exploit, the calculation is easy. The interesting thing is not that this is happening, but that it took this long.

The question worth sitting with – and one I don't have a neat answer to – is whether UK public markets will ever reward companies for carrying sensible levels of debt, rather than penalising them for it. Until they do, the buyout wave will continue. And the winners will mostly be flying in from New York.