

Clearwater International Multiples Heatmap

Q2 2022

In-depth analysis of the acquisition multiples paid for European private equity transactions

INSIDE

EUROPEAN OVERVIEW:

The value of PE-backed transactions in Europe surged to an all-time high in Q2 2022 – despite tough macroeconomic conditions and mounting geopolitical turbulence.

SPOTLIGHT ON: Nordics

SECTOR FOCUS:

Business services



At a glance: Q2 2022

LTM trends

Q2 2022 vs Q1 2022

In terms of the last twelve months, PE deals were down by 4% (volume) and up 7% (value) in LTM Q2 2022 versus LTM Q1 2022.

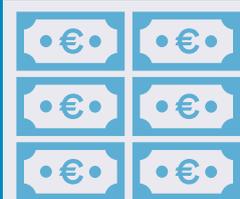
-4% vs. LTM Q1 2022

1,176
DEALS
LTM Q2 2022



+7% vs. LTM Q1 2022

€290
BILLION
in deal value



Quarterly trends

Q2 2022 vs Q1 2022

Quarter-on-quarter, volume fell by 3%, while value rose 32% compared to Q1 2022.

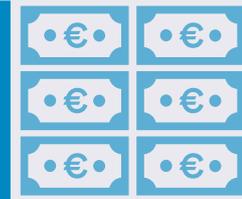


283
DEALS
IN Q2 2022

-3% vs. Q1 2022

+32% vs. Q1 2022

€84
BILLION
in deal value



Top regions

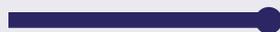
Q2 2022

France was the top-performing region by volume in Q2 2022 (59 deals). UK/Ireland saw the highest value (€28.3bn).

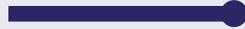
France 59 deals



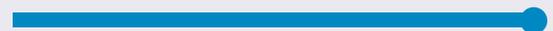
UK/Ireland 57 deals



Southern Europe
49 deals



UK/Ireland €28.3bn



Benelux €14.0bn



Southern Europe
€11.1bn



Top sectors

Q2 2022

The TMT sector provided both the most deals (74) and the highest deal value (€22.7bn) in Q2 2022.

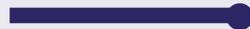
TMT 74 deals



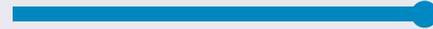
Industrials and
chemicals 62 deals



Consumer
50 deals



TMT €22.7bn



Industrials and chemicals
€16.9bn



Business services
€14.1bn





European overview

Our quarterly report identifies the major themes driving EV/EBITDA multiples in European private equity (PE) deals. The objective is to help PE investors understand trends across regions and sectors, leading to better investment decisions.

The value of PE-backed transactions in Europe surged to an all-time high in Q2 2022 – despite tough macroeconomic conditions and mounting geopolitical turbulence.

Deep reserves of liquidity and fierce competition for high-quality assets contributed to a quarterly deal total of €83.6bn, a 32% increase from Q1. TMT led the way, clocking up deals worth €22.7bn, the sector's highest quarterly total since records began.

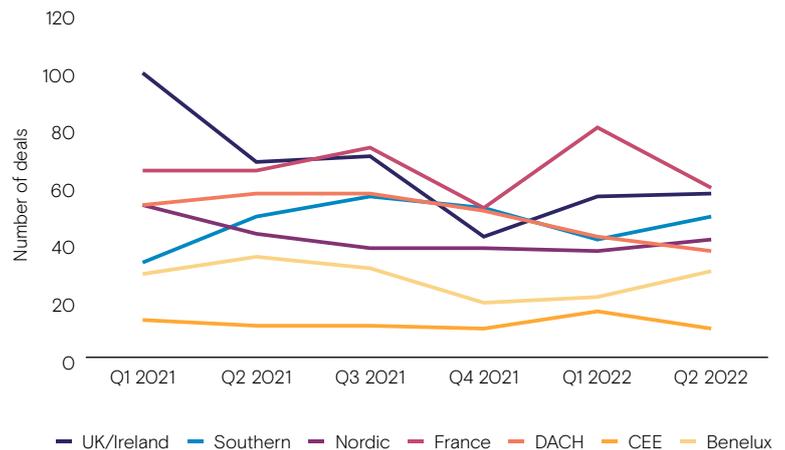
While overall value was sharply higher in Q2, deal volume was down 3% from the previous quarter, with a total of 283 transactions. Against this background, the average long-term EV/EBITDA multiple for European PE transactions climbed to its highest level on record.

REGIONAL OVERVIEW

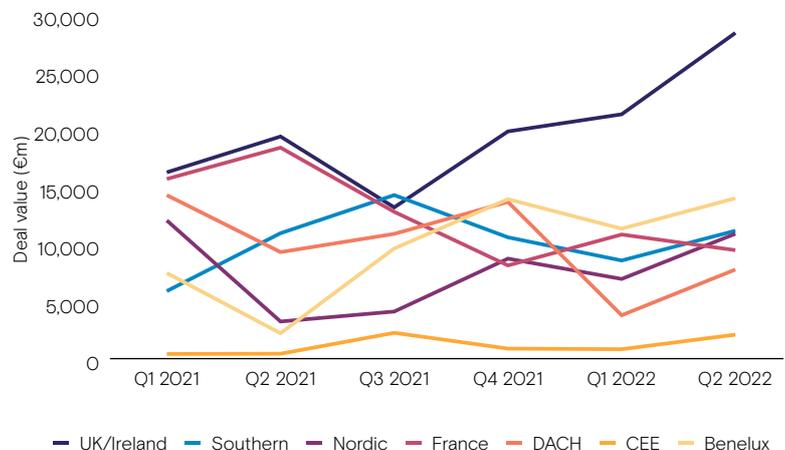
The UK and Ireland has long been Europe's top-performing PE market, and Q2 2022 was no exception. While deal volume was solid rather than spectacular, the quarterly deal value – €28.3bn – is a new pan-European record. Meanwhile, Q2 marked the eleventh consecutive quarter in which the UK and Ireland's deal multiple either rose or stayed the same. No other geography has an unbroken record of this length.

Despite resurgent inflation, jittery markets and an anticipated eurozone rate rise (which materialised at the beginning of Q3), most regions saw strong performance in deal value terms in Q2, with only France posting a decline. That said, France was Europe's biggest deal generator in the quarter, albeit only just, recording 59 deals compared to the UK and Ireland's 57.

QUARTERLY DEAL VOLUMES BY REGION



QUARTERLY DEAL VALUES BY REGION



Deep reserves of liquidity and fierce competition for high-quality assets contributed to a quarterly deal total of €83.6bn.



European overview continued

SECTOR WATCH

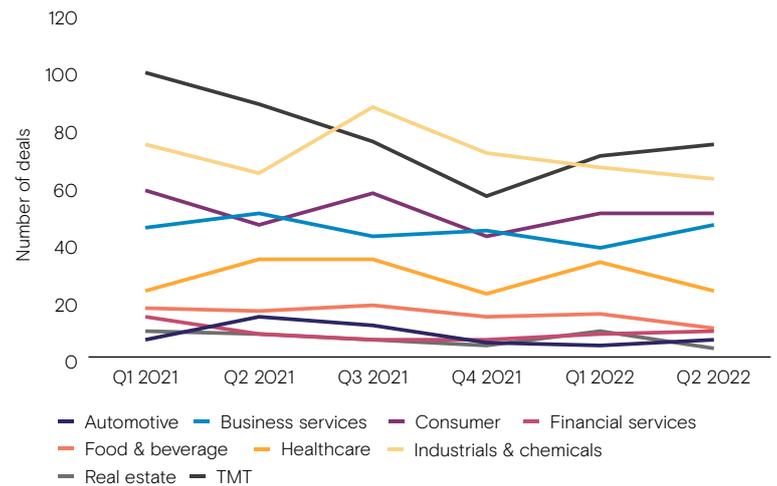
The stars aligned for TMT in Q2 2022. The sector achieved the highest quarterly volume (74, accounting for more than a quarter of the regional total across all sectors), in addition to the greatest deal value (27% of the total) and the biggest long-term deal multiple. On top of this, TMT generated the largest deal of Q2: an investment by GIC, Singapore's sovereign wealth fund, in The Access Group, a UK-based business management software specialist.

Industrials & chemicals and the business services sectors saw their long-term deal multiples rise in Q2. The former recorded slighter fewer buyouts in Q2 (62) compared to the previous quarter (66), though these transactions were worth a great deal more in aggregate – €16.9bn, more than double the output achieved in Q1 (€7.6bn). The business services space is also booming, as Clearwater International partner Rob Burden describes in the 'Sector focus' chapter of this report.

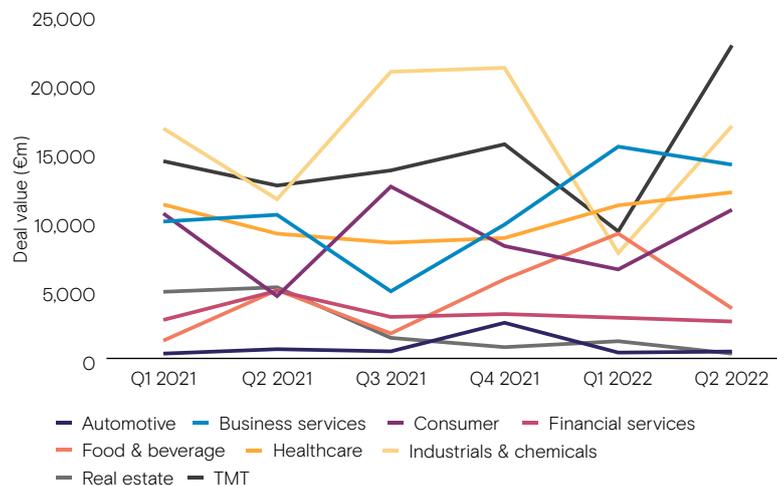
That being said, the quarter also saw deal multiples in some sectors easing from the all-time highs achieved in Q1 – notably financial services and food and beverage, both of which retreated by just over one turn of EBITDA.

The figures posted in the consumer sector also withdrew somewhat, by half a turn of EBITDA quarter-on-quarter, although the industry did record higher aggregate value in Q2 (€10.8bn) than in Q1 (€6.5bn) on the same number of transactions (50 in each three-month period). Europe's mounting 'cost of living' crisis and inflationary pressures may be putting a squeeze on consumers' budgets, but deals are evidently still to be made in the space.

QUARTERLY DEAL VOLUMES BY SECTOR



QUARTERLY DEAL VALUES BY SECTOR





Spotlight on: Nordics

The Nordic region – comprising Denmark, Norway, Sweden, Finland and Iceland – saw strong buyout performance in Q2. Clearwater International partners Tomas Almgren and Lars Rau Jacobsen reveal where the opportunities lie and what the future might have in store.

The Nordics is Europe's smallest region by population, but it consistently punches above its weight when it comes to deal generation. This proved to be the case again in Q2 2022, with PE dealmakers inking a total of 41 transactions in the region, up from 37 in Q1. Deal value, meanwhile, surged to €10.9bn – an increase of 57% from the previous quarter. All of this contributed to a new record long-term deal multiple for the region.

FLIGHT TO QUALITY

Inflation, rising rates and geopolitical uncertainty are having an impact in the Nordics, as they are elsewhere. While this has done little to dent overall deal appetite, it is nonetheless affecting the type of deals that are getting done. "Weaker assets are more difficult to sell at the moment. But valuations are high for good assets, and we have seen a lot of strong deals completed," says Tomas Almgren, Clearwater International partner in Sweden.

TMT and healthcare assets are at the top of the list for PE acquirers seeking to reduce their risk exposure, says Lars Rau Jacobsen, Clearwater International partner in Denmark. "Speculative assets that need time to become profitable are a bit more difficult, while stable, cash-generating businesses remain attractive. This is general across all sectors, but healthcare and TMT are quite hot."

The Nordic region is well placed to capitalise on the growing demand for safe-haven assets, particularly in the TMT space. In Q2 2022, TMT contributed 41% of all Nordic buyouts, the highest proportion of such deals in Europe. Indeed, records going back to 2014 confirm that the Nordic region produces a greater proportion of TMT buyouts relative to other sectors than anywhere else in Europe.



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Tomas Almgren, partner, Clearwater International



Spotlight on: Nordics_{continued}

Healthcare is also attracting considerable attention. The first six months of 2022 saw eight deals in this sector totalling €5.6bn. Business services – another sector with strong safe-haven credentials – saw 15 deals worth a combined €4bn over the same period. “PE is keen on assets that they perceive as lower risk,” says Almgren. “We see good activity in business services – assets with recurring revenues are very attractive. These include online marketplaces, which are super attractive and getting high valuations.”

ESG AND ENERGY

Sustainability is another strong theme in Nordic dealmaking. “With the energy crisis, we are seeing a lot of appetite for anything that has to do with renewable assets and the value chain behind it,” observes Jacobsen. “We are going to see a lot of public investment to secure energy supplies and develop green energy resources, so that sector will definitely be of interest.”

Subsectors that typically do less well in turbulent times are also benefiting from the sustainability trend. Construction products are one example. Clearwater advised Denmark-based Troldekt, a specialist manufacturer of wood-based acoustic boards, on its sale to listed Irish building materials group Kingspan. “Troldekt to Kingspan was very much driven by the sustainability angle,” confirms Jacobsen.

The Nordic region is renowned for its ample supplies of renewable energy, which is one reason why it is so attractive for data-centre developers. But the picture is complex, explains Almgren: “Sweden has an energy surplus in the north. That makes it attractive for data centres, and there is huge investment in that area. But supplies in the south are constrained and electricity prices are 10 times higher. This is a concern for businesses because higher energy bills decrease consumer spending.” Sharp differentials in regional electricity pricing are also a feature of energy markets in Denmark and Norway.

THE ROAD AHEAD

What might the future hold for Nordic dealmaking? While the pipeline remains robust, deal financing is becoming more challenging, particularly for big deals that require financing from multiple bank lenders. “Syndicated loans

“With the energy crisis, we are seeing a lot of appetite for anything that has to do with renewable assets and the value chain behind it.”

Rau Jacobsen, partner, Clearwater International

for very large transactions are always a bit difficult,” notes Jacobsen. “But on the smaller and mid-cap deals, it still seems OK.”

With banks becoming more hesitant, dealmakers are increasingly looking to alternatives. “In Sweden, we are seeing a lot of people looking at private debt funds and other financing options. These have not been very strong in the market historically,” Almgren says.

Despite the challenges, the region’s attractions remain undimmed. “We will continue to see a strong appetite across most sectors,” predicts Jacobsen. “Some specific consumer projects might struggle, but TMT and healthcare are resilient to recession and they will definitely remain attractive. We will also see activity in stable, cash-generating business services and industrials businesses. So, we’re optimistic about what’s going on – and though we might see a decrease in deal activity during the next period compared to 2021, we need to remember that we are coming from an all-time record-breaking year in the M&A market.”



Sector focus: **Business services**

From accountancy services and human capital to consulting and TICC, the business services sector encompasses an incredible range of cash-generating commercial activities. Opportunities abound and, as Clearwater International’s Rob Burden explains, competition for the most attractive assets remains hot.

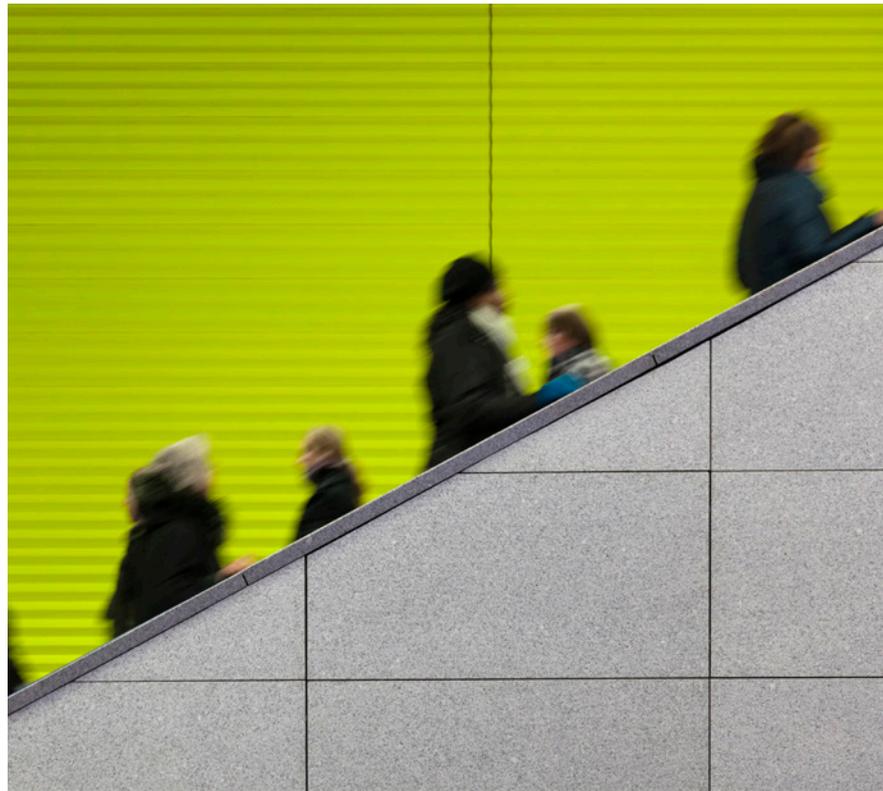
Europe’s business services sector is booming. The first six months of 2022 saw 84 PE buyouts in the sector, the second-highest total on record. Meanwhile, aggregate deal value over the same period rocketed to €29bn. This is the highest H1 deal total for business services on record, and far ahead of the previous high of €20.3bn achieved in H1 2021. Against this background, the long-term deal multiple for business services climbed to a new high in Q2. Interestingly, the sector multiple has seen consistent quarter-on-quarter rises dating back to Q3 2019 – a run unequalled by any other sector.

The UK and Ireland was Europe’s most prolific generator of business services buyouts in Q2, amassing 15 transactions with a total value of €5.6bn. This comes following a stellar Q1, which saw the UK and Ireland deal total soar to a record-breaking €10bn. So, what’s behind the surge of interest in business services – and which assets are attracting the most attention?

RECURRING REVENUES

“Tech-enabled services and businesses linked to IT and digital technology are generating a lot of interest,” says Rob Burden, Clearwater International partner and Head of Business Services based in the UK. “Corporates are evolving at record pace and they want to work with expert third parties to upskill their workforce, attract and retain world-class talent and support their digital transformation journey amongst many other things.”

Traditional professional services are also a growing area of interest for PE acquirers, Burden says. “Legal and accountancy firms are an example. These are hotspots



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Rob Burden, partner, Clearwater International



Sector focus: **Business services**

continued

where you have strong visibility of earnings and recurring revenues. You also have some supporting megatrends within the market. If you take the accountancy sector, there is a trend of the Big Four moving away from medium-sized company audits. That works to the benefit of mid-tier accountancy firms who are snapping up the work that the Big Four firms no longer want to do.”

Tighter economic conditions are supercharging the appetite for business services assets. Companies that generate cash, have high margins and which offer mission-critical compliance-related services are generating the most competition. “There has been a flight to the more attractive subsectors, such as professional services,” confirms Burden. “By contrast, PE investments in the lower growth, capex heavy subsectors, such as traditional transport and logistics businesses, are few and far between right now.”

GROWTH BUSINESSES

One subsector that is seeing a particularly rapid rise in PE activity is TICC – testing, inspection, certification and compliance. “PE is interested in TICC for several reasons,” Burden explains. “First, it is a large, massively fragmented sector and ripe for consolidation. Second, the structural growth drivers within TICC are very strong. There tend to be compliance-led drivers to the services, whether that is fire and life safety, electrical testing or environmental and water testing. Plus, the expansion of regulation continues to generate new testing and certification requirements. All of this contributes to growth businesses with high recurring revenues.”

PE investment is playing a critical role in building-out platforms within the TICC space. There are many examples, such as Palatine’s investment in Construction Testing Solutions (CTS), a buy-and-build platform which it supported through numerous bolt-ons following initial investment in 2018 through to the sale to Oakley Capital in 2022, a deal that Clearwater advised on.

Oakley has also invested in TICC specialist Phenna Group, acquiring the business from Inflexion in Q3 22. Clearwater advised both Stroma and energy certification business Elmhurst Energy Systems on their sale to Phenna Group during 2021.

“A buy-and-build strategy is as relevant today as it always has been, and platforms will continue to seek smaller bolt-on opportunities as a way to drive value.”

Rob Burden, partner, Clearwater International

“CTS and Phenna are good examples of platforms that are consolidating a lot of the fragmented operators out there and really going at pace,” notes Burden.

Consolidation looks set to remain the name of the game in business services. “PE is having a ripple effect through the market from large-cap funds right the way down,” Burden says. “A buy-and-build strategy is as relevant today as it always has been, and platforms will continue to seek smaller bolt-on opportunities as a way to drive value.”

Despite current economic uncertainties, the business services sector remains strong. Indeed, the pipeline is looking stronger than ever. “From a Clearwater standpoint, we are coming into H2 with a fantastic order book,” says Burden. “We have already completed 10 business services deals this year in the UK, so we have good momentum. Our clients are operating in those attractive, growing and resilient parts of the sector that should continue to be of interest to PE, so we are certainly optimistic about the year ahead.”



ABOUT & CONTACTS

Clearwater International has a proven track record of excellent client outcomes. With 16 international offices and more than 300 employees, the business has completed over 2,199 transactions worth an aggregate value in excess of €119bn.

We have a rich and respected heritage in private equity, working with investors, entrepreneurs and management teams over many years. Our success comes down to our connections, knowledge, scale and global outlook.

Our experienced Debt Advisory team ensures that clients looking to raise new debt capital or refinance existing facilities have access to the most sophisticated and specialised debt packages available on international markets.

Our independence from any larger financial institution or consulting firm ensures that we can give truly objective advice, guiding clients through the challenges faced. All transactions are partner-led, offering high levels of personal service and knowledge. We take great pride in the fact that many of our clients return to us for advice on multiple occasions.

Selected Clearwater International private equity transactions from the last quarter

  sold to  Sell-side Undisclosed	  sold to  Sell-side Undisclosed	  sold  to  Sell-side Undisclosed	 Shareholders including  sold  to  Sell-side Undisclosed
  acquired a majority stake in  a portfolio company of  Buy-side Undisclosed	  sold to  Sell-side Undisclosed	  on its investment in  Sell-side Undisclosed	  sold to  Sell-side Undisclosed

To discuss any of these topics or investment opportunities, please contact:



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