CLEARWATER INTERNATIONAL

Clearwater International Multiples Heatmap

Q1 2022

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

INSIDE

EUROPEAN OVERVIEW: Russia's invasion of Ukraine, surging energy prices and supply chain disruption combined to create an exceptionally challenging environment for dealmakers in Q1 2022.

SPOTLIGHT ON: Southern Europe

SECTOR FOCUS: Healthcare

Unquote

At a glance: **Q1 2022**

LTM trends

Q1 2022 vs Q4 2021

In terms of the last twelve months, PE deals were down by 4% (volume) and 3% (value) in LTM Q1 2022 versus LTM Q4 2021.

-4% vs. LTM Q4 2021

1,221
DEALS
LTM Q1 2022

€270
BILLION
in deal value

-3% vs. LTM Q4 2021

Quarterly trends

Q1 2022 vs Q4 2021

Quarter-on-quarter, volume rose by 11%, while value fell 16% compared to Q4 2021.

293
DEALS
IN Q1 2022

+11% vs. Q4 2021

-16% vs. Q4 2021

€63
BILLION
in deal value

Top regions

Q1 2022

France was the top-performing region by volume in Q1 2022 (80 deals). UK/Ireland saw the highest value (€21.3bn).

France 80 deals

UK/Ireland 56 deals

DACH 42 deals

UK/Ireland €21.3bn

Benelux €11.3bn

France €10.8bn

Top sectors

Q1 2022

The TMT sector provided the most deals (70), whilst business services topped the value list (€15.4bn) in Q1 2022.

TMT 70 deals

Industrials and chemicals 66 deals

Consumer 50 deals

Business services €15.4bn

Healthcare €11.1bn

TMT €9.2bn

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.

Russia's invasion of Ukraine, surging energy prices and supply chain disruption combined to create an exceptionally challenging environment for dealmakers in Q1 2022.

While these upheavals resulted in some transactions being delayed, PE activity overall continued apace with a wave of TMT, industrials & chemicals, and consumer transactions helping to lift quarterly volumes. Total deal value was down by 16% quarter-on-quarter to €63.4bn – although, to put this in context, the value achieved in Q4 2021 (€75.5bn) was the highest on record. Q1's figures are strong by any conventional yardstick and far above the average of recent years.

Record levels of dry powder continue to bolster the resilience of the buyout market. Indeed, ample liquidity was one reason why PE dealmaking fared better than the wider M&A market, which saw declines in both volume and value. PE deals accounted for one-third of all Q1 M&A transactions in 2022, one of the highest proportions on record.

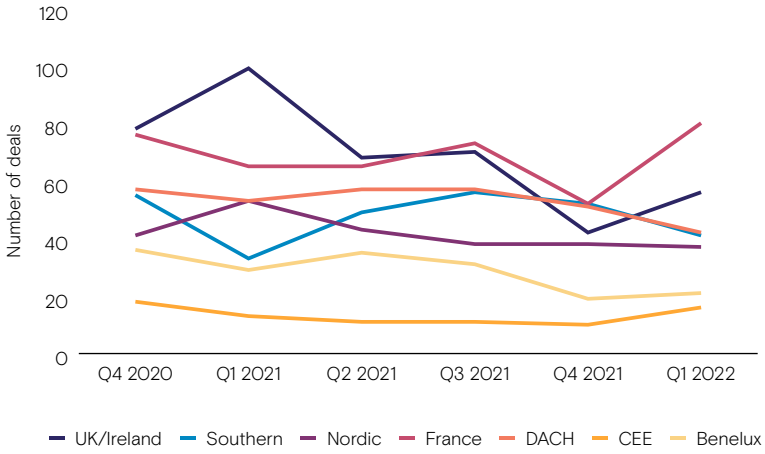
REGIONAL OVERVIEW

Q1 2022 saw the UK and Ireland reach for new highs in terms of the average last-twelve-months (LTM) EV/EBITDA multiple among European regions. Deal volume was robust, rising by a third to 56 from 42 in Q4 2021. Value also rose strongly with the total quarterly deal value (€21.3bn) far exceeding that of other European regions – indeed, second-placed Benelux recorded only a little over half (€11.3bn) the deal value achieved by the UK and Ireland.

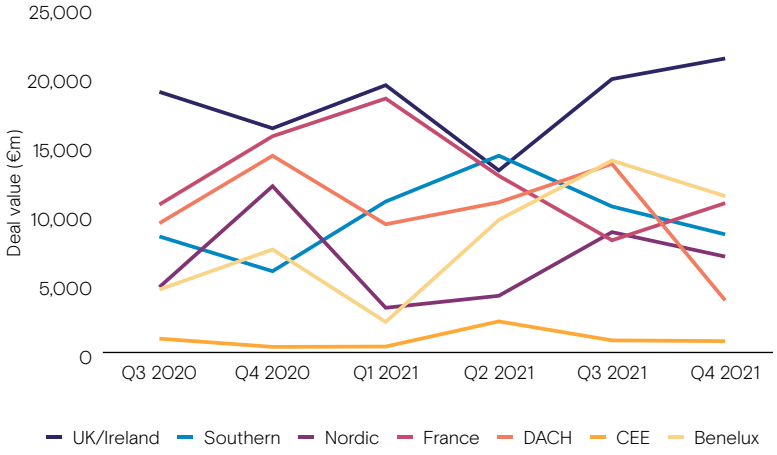
The strong performance of the UK and Ireland is encouraging, particularly in light of the Bank of England raising base rates three times between December 2021 and March 2022. The UK's monetary tightening – which was flagged well in advance by the Central Bank – appears to have left the appetite for buyouts unscathed. This could bode well for dealmaking in the eurozone as the European Central Bank prepares to hike rates for the first time in more than two years.

France stands out as Europe's most prolific deal generator in terms of volume – logging 80 transactions, up 54% from the 52 recorded in Q4 2021, and representing more than a quarter of the regional total – largely on the back of strong activity in the industrials & consumer sectors.

QUARTERLY DEAL VOLUMES BY REGION



QUARTERLY DEAL VALUES BY REGION



European overview continued

Meanwhile, aggregate French deal value rose by a third quarter-on-quarter, from €8.1bn to €10.8bn. Against this background, France's LTM deal multiple recorded an increase.

Elsewhere in Europe, the DACH region (Germany, Austria and Switzerland) and the Southern region (Spain, Italy and Portugal) also saw their LTM multiples rise. By contrast, LTM multiples in the Nordics, CEE and Benelux all retreated from the record highs of 2021.

SECTOR WATCH

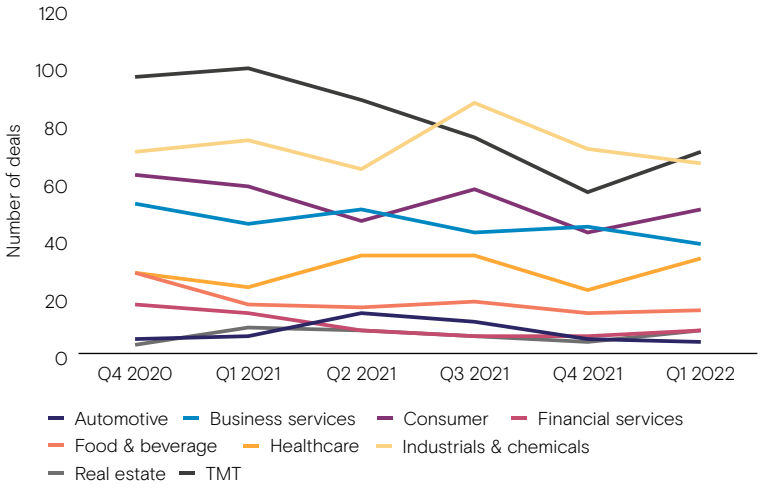
Turning to specific industries, financial services achieved the highest LTM deal multiple ever seen in any sector in Q1 – thanks in large part to the PE-backed acquisition of UK-based specialist insurance provider CFC. This was one of the largest financial services deals of recent years, generating a remarkably high multiple. Performance in the sector was otherwise modest, with deal volume posting a small increase (from six in Q4 2021 to eight in Q1) and deal value down slightly (from €3.2bn to just under €3bn).

TMT's seemingly unstoppable rise continued in Q1 with the sector's LTM deal multiple climbing for the sixth consecutive quarter. While total deal value was down from the heady heights of 2021 (€9.2bn versus a quarterly average of €14bn in 2021), TMT deal volume rose quarter-on-quarter from 56 to 70, underscoring the enduring attraction of all things digital.

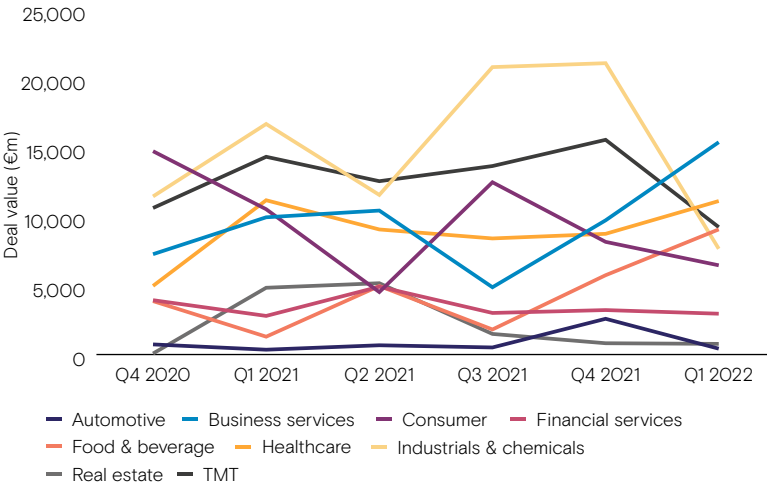
Healthcare's LTM deal multiple eased back in Q1 2022 following a prolonged period of strong and consistent rises, suggesting that assets in this much sought-after sector could be trending towards more rational valuations. Both deal volume (from 22 to 33) and aggregate value (from €8.7bn to €11.1bn) were up quarter-on-quarter. Increasing demand for private healthcare post-pandemic continues to spur activity in this sector.

Food and beverage was another star performer in Q1, clocking up its second-highest deal value on record (€9.1bn, second only to the anomalously large €16bn logged in Q4 2017). Volume rose marginally quarter-on-quarter, from 14 to 15. The sector's LTM deal multiple remained unchanged from the high achieved in Q4 2021.

QUARTERLY DEAL VOLUMES BY SECTOR



QUARTERLY DEAL VALUES BY SECTOR



As with healthcare, food and beverage dealmaking is being driven by fundamental shifts in post-pandemic consumer behaviour, including the mushrooming interest in personal wellbeing. Indeed, two of the sector's top buyouts in Q1 involved dietary supplement specialists.

Spotlight on: **Southern Europe**

Dealmaking in Europe's Southern region – comprising Spain, Italy and Portugal – slowed somewhat in Q1 2022. Despite this, there were some notable hotspots, including in the healthcare, food and beverage, and TMT sectors, as Clearwater International's Bruno Pinho, partner in Portugal, and Josemaría Torrens, director in Spain, discuss.

The record-breaking M&A activity recorded in 2021 gave way to a notably slower tempo of dealmaking in Q1 2022, with both volume (41) and aggregate value (€8.5bn) in Europe's Southern region dropping by around a fifth from Q4 2021 (52 deals worth €10.6bn). Against this backdrop, the region's LTM deal multiple continued to rise, albeit less rapidly than in the previous two quarters.

Healthcare shone through as the Southern region's most valuable sector in Q1 (€2.3bn). Persistent demand for assets continues to support high valuations, with the LTM multiple for the sector in Q1 well ahead of the European average.

More than half of the aggregate deal value accrued in Q1 came from a single PE-backed transaction involving two targets: Italy-based blood plasma business Kedrion Biopharma, and British rival Bio Products Laboratory. Q1 also saw PE-backed deals in the dental, electro medical, in vitro diagnostics and pharmaceuticals manufacturing subsectors.

Dealmaking in the region's healthcare sector is underpinned by fundamental shifts in consumer behaviour – notably, growing dissatisfaction with public healthcare provision. "People feel that they are not getting what they need from state healthcare providers, and they are going to the private sector to get it instead," says Bruno Pinho, Lisbon-based partner at Clearwater International. "The emergence of private healthcare providers is accelerating, and this is attracting PE capital."

The expansion of private healthcare – which includes everything from dentistry to hospitals and care homes – is

"The emergence of private healthcare providers is accelerating, and this is attracting PE capital."

Bruno Pinho, partner, Clearwater International

Spotlight on: **Southern Europe** continued

also stimulating dealmaking in adjacent sectors, Pinho says: "The operation of healthcare services attracts specialised players. But all of this requires real estate investments, and we are seeing a trend where the ownership of these assets goes to different players."

POST-PANDEMIC TRENDS

Another outstanding performer in Q1 was the food and beverage sector. Deal volume saw a slight rise quarter-on-quarter from six to seven, but deal value rose sharply from €915m to €1.5bn. The LTM multiple for this sector in the Southern region is slightly below the European average, suggesting there is still value to be found.

One factor driving growth in the sector is the rise of new eating habits post-pandemic, including the growing appetite for 'nutraceuticals', functional foods with health benefits. This point is underlined by the food and beverage sector's largest Q1 deal in the region, namely the acquisition of Italy-based dietary supplement specialist Biofarma Group by French PE firm Ardian. "Dealmakers are focusing on healthy food, including meat substitutes and organic produce," notes Pinho. "It's not a push – consumers are going into stores and looking for this."

Turning to TMT, dealmaking in the Southern region put in a solid performance in Q1, with volume marginally higher quarter-on-quarter, rising from five to six. Moreover, there is still value to be had: the region's LTM TMT deal multiple was more than two points of EBITDA lower than the European average.

The largest TMT deal seen in Q1 was CVC Capital Partners' acquisition of Italy-based insurance software provider RGI Group. Also of note was the acquisition by Linzor Capital Partners of a majority stake in inConcert, a Spain-based digital marketing specialist.

"Digital marketing is a major trend within TMT," says Josemaría Torrens, Barcelona-based director at Clearwater International. "B2C businesses are investing a lot in building their campaigns around social networks, rather than television and newspapers. We are finding many companies in the market that have been approached by both PE groups and strategic buyers."

> "B2C businesses are investing a lot in building their campaigns around social networks."
>
> Josemaría Torrens, director, Clearwater International

OUTLOOK

Increased competition from strategics – particularly over the past year – is causing sleepless nights for PE bidders across all sectors. It could also account for the dwindling proportion of secondary buyouts, which fell sharply in Q1. "What's different now is that strategic investors are beating financial investors in competitions," Torrens says. "Our experience in Spain is that they have more need and put in more resources to get the asset."

Another trend is the rise of short-range cross-border PE deals involving European neighbours. This phenomenon is most pronounced in the mid-market, Pinho says: "We're seeing more PE firms in Spain looking at deals in Portugal. And we see processes in Portugal where PE firms are starting to look at Spain and even France. New funds are telling investors they want to make allocations outside their domestic markets. That didn't happen five years ago."

One reason for this is that it is now easier than ever to manage deal processes remotely. "Thanks to digital technology, you can see everything without leaving your office. It's a cultural shift as much as anything," says Torrens. "It also means processes are much faster – deals that used to take us nine months are now completed in five."

With valuations elevated, what impact might a eurozone rate hike have on deal multiples? "There is a lot of money still to be deployed and there are a lot of investors looking to do deals," says Pinho. "What you might see is some rationality coming into transaction multiples. If anything, you will see impacts on prices rather than volumes."

Sector focus: **Healthcare**

Strong fundamentals, robust revenue models and scope for consolidation are key attractions of the healthcare sector, as Clearwater International's Ramesh Jassal, director and international head of healthcare, and Stefan Sachsenhauser, managing director and head of healthcare in DACH, explain.

Healthcare is hot. PE deal volume and value soared to all-time highs in 2021, with that momentum showing no signs of slowing. Indeed, Q1 2022 saw healthcare (€11.1bn) overtake industrials and chemicals (€7.6bn) in terms of total deal value for the first time on record.

In a market buffeted by macroeconomic headwinds, Europe's healthcare sector offers a number of fundamental attractions. Among these are an ageing population – and therefore rising demand for products and services – as well as a steady stream of therapeutic innovations.

On top of this is the need to tackle the massive elective surgery and other clinical and non-clinical healthcare waiting lists that have built up during the pandemic – an objective that is attracting a deluge of private capital and driving deals across the board. UK-based Veincentre – which is backed by Palatine and specialises in the treatment of varicose veins – is currently on the market. Meanwhile, Community Health and Eye Care, which provides services from general ophthalmology to eye surgery, was acquired by G Square Capital in Q3 2021.

"Healthcare assets are demanding low to mid double-digit multiples, primarily because of the exacerbation of the last two years, highlighting a flight to non-cyclical performing sectors," says Ramesh Jassal, Clearwater International's international head of healthcare. "This is a considerable opportunity to invest because tackling the backlog of demand will take at least a decade to contract. In light of that, PE interest is showing no signs of abating because there is an option for investors to take a secondary exit later down the track, with fuel/equity story still left in the tank for the next investor."

In most of Europe, provision of healthcare is underpinned by secure, publicly funded revenues – a big attraction for investors. "The beauty of public funding is that you have recurring revenues, good visibility of cashflows and long-term contracts over several years, which is a great equity incentive for PE investors," Jassal says.

CONSOLIDATION DRIVE

From drug development to dentistry, just about every subsector of the healthcare universe is attracting increased PE attention. Contract development and manufacturing organisations (CDMOs) are one particular area of focus. These businesses provide big pharma with outsourced drug development and production services. CDMOs are not new, but the critical role these outsourcers played during the pandemic has thrust them into the spotlight. More to the point, the CDMO subsector is highly fragmented and ripe for consolidation.

Sector focus: **Healthcare** continued

"Outsourced pharma services still reflect consolidation dynamics and provide opportunities for strategic growth, particularly in oncologics- and biologics-driven high-margin FDF segments of injectables and non-sterile liquids," says Stefan Sachsenhauser, Clearwater International's managing director and head of healthcare in DACH. "There is a clear trend towards one-stop solution providers, which explains why there is such a strong deal dynamic from the corporate level. Big pharma is asking for strategic rather than transactional partnerships. It's not enough anymore to be a specialist in one of the individual value chain functions – and currently, there are specialists in development, in manufacturing, and in packaging."

The consolidation dynamic can also be seen in the contract research organisation (CRO) subsector, which handles R&D for pharma companies. "One reason for this is that pharma companies prefer to partner with fewer full-service partners, so you are seeing continued consolidation in CRO businesses, who are looking to build on their speciality service gaps that provides a 'one-stop shop' such as clinical trial patient recruitment, decentralised clinical trials, commercialisation services and biometrics analysis, to mention a few," explains Jassal.

Consumer-focused healthcare companies are also an increasing point of emphasis for consolidation efforts. "One area is in vitro fertilisation (IVF). It's an emotional purchase for patients, with a high-level of demand for its services," Jassal says. Among the notable PE deals in the IVF subsector in Q1 was Nordic Capital's acquisition of UK-based fertility clinic group, Care Fertility.

STIFF COMPETITION

Especially in provider care, distressed assets are another facet of the healthcare picture. "What we are seeing in Germany is that a lot of big groups operating hospitals and elderly care institutions are starting to divest distressed assets. This is an opportunity for foreign investors and/or operators with innovative care concepts to increase their footprint in Germany," says Sachsenhauser. "The challenge for PE is to provide a well-balanced business model covering all the criteria – not just bottom-line optimised value creation and growth, but also the maintenance of quality care and good working conditions."

> "Healthcare assets are demanding low to mid double-digit multiples, primarily because of the exacerbation of the last two years."
>
> Ramesh Jassal, international head of healthcare, Clearwater International

Another challenge facing PE bidders is growing competition from strategic investors and infrastructure funds – a point underlined by Wren House Infrastructure's acquisition of UK-based specialist care provider Voyage Group. "Infrastructure funds are buying up assets that PE would usually compete for, which is giving PE a run for its money," says Jassal. "Infrastructures' cost of capital and their respective returns hurdle rate are lower than PEs, so they can afford to pay a bigger multiple."

While the average LTM multiple for healthcare assets in PE transactions saw a significant rise in 2021, it was the only sector (alongside industrials and chemicals) where the deal multiple actually eased in Q1 2022 – suggesting that valuations are becoming less frothy.

So what might the future look like for dealmaking in the healthcare sector? "COVID-19 has accelerated the flight to stable, anti-cyclical markets," notes Jassal. "There is a lot of cash in the market under PE ownership, who will continue to deploy that capital into healthcare, since it is safer in comparison to many other sectors."

ABOUT & CONTACTS

Clearwater International has a proven track record of excellent client outcomes. With 17 international offices and more than 300 employees, the business has completed over 2,131 transactions worth an aggregate value in excess of €113bn.

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

WATERLAND PRIVATE EQUITY INVESTMENTS raised finance to support the acquisition of RUF BETTEN and BRUNO Acquisition Finance Undisclosed	FNB PRIVATE EQUITY sold LARTIGUE, Tradition de Vendée to a financial holding company Sell-side Undisclosed	Profura GRUPPEN sold TRENSUMS to Fazer Sell-side Undisclosed	LDC BACKING AMBITION on its sale of STROMA to Phenna Group Trust Integrity Confidence Sell-side Undisclosed
HORIZON CAPITAL portfolio company ASCENT raised debt finance from HSBC Refinancing Undisclosed	BRASSERIE BAR CO sold to ALCHEMY Sell-side Undisclosed	ABÉNEX CAPITAL acquired a minority stake in ORYX Groupe Immobilier, Proprietes-privees.com Buy-side Undisclosed	Miura Partners acquired ORES & BRYAN BRÓKER DE SEGUROS TÉCNICOS Buy-side Undisclosed

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