

Clearwater International Multiples Heatmap

Q2 2021

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

INSIDE

EUROPEAN OVERVIEW:

After a record-breaking first quarter, the pace of European PE dealmaking eased in Q2 2021 – although activity remained at near-historic highs.

SPOTLIGHT ON: UK and Ireland

SECTOR FOCUS: Food & beverage



At a glance: Q2 2021

LTM trends

Q2 2021 vs Q1 2021

In terms of last twelve months, PE deals were up by 16% (volume) and 24% (value) in LTM Q2 2021 versus LTM Q1 2021



Quarterly trends

Q2 2021 vs Q1 2021

Quarter-on-quarter, volume and value fell by 5% and 11%, respectively, compared to Q1 2021



Top regions

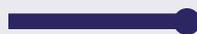
Q2 2021

As in Q1 2021, UK/Eire was the top-performing region for both volume and value in Q2 2021

UK/Eire 68 deals



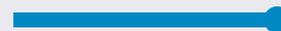
France 65 deals



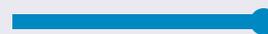
DACH 57 deals



UK/Eire €19.3bn



France €18.4bn



Southern €10.9bn



13.2x
UK/Eire had the highest average LTM multiples in Q2 2021

Top sectors

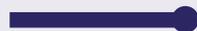
Q2 2021

The TMT sector provided both the most deals (88) and value (€12.5bn) in Q2 2021

TMT 88 deals



Industrials and chemicals 64 deals



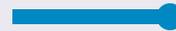
Business services 50 deals



TMT €12.5bn



Industrials and chemicals €11.5bn



Business services €10.4bn



14.1x
Healthcare was the hottest sector for average LTM multiples in Q2 2021



European overview

This 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.

After a record-breaking first quarter, the pace of European PE dealmaking eased in Q2 2021 – although activity remained at near-historic highs. Q2 deal value reached its second highest level in seven years, while deal volume recorded its third highest total.

Dealmakers have put the pandemic behind them and they are looking towards growth opportunities in the post-COVID world – notably in healthcare, TMT, financial services and business services. Competition for high-quality targets in these and other sectors continued to propel deal multiples ever higher in the second quarter. In Q2, the average EV/EBITDA multiple over the last twelve months (LTM) for European PE-backed transactions climbed to 11.8x. This is a new record and it follows an unbroken run of five quarterly increases.

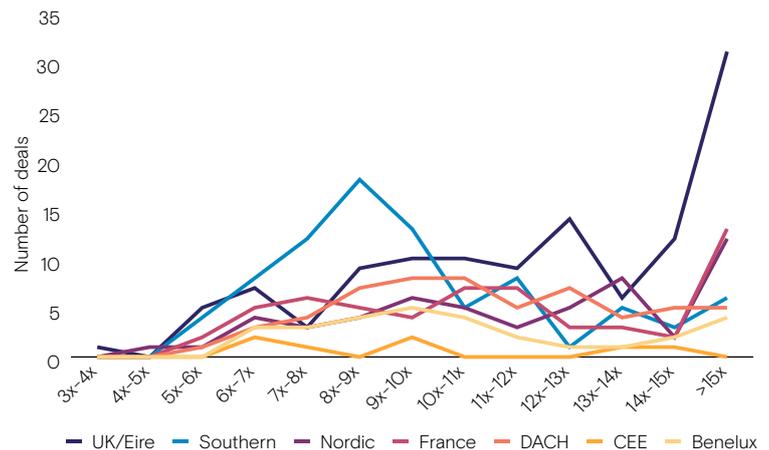
DEAL SIZE

Looking at deal size, the majority of transactions took place within the sub-€50m bracket, although the number of transactions with deal value above €500m continued to rise quarter-on-quarter, signalling the continued strength of M&A activity at the top end of the market.

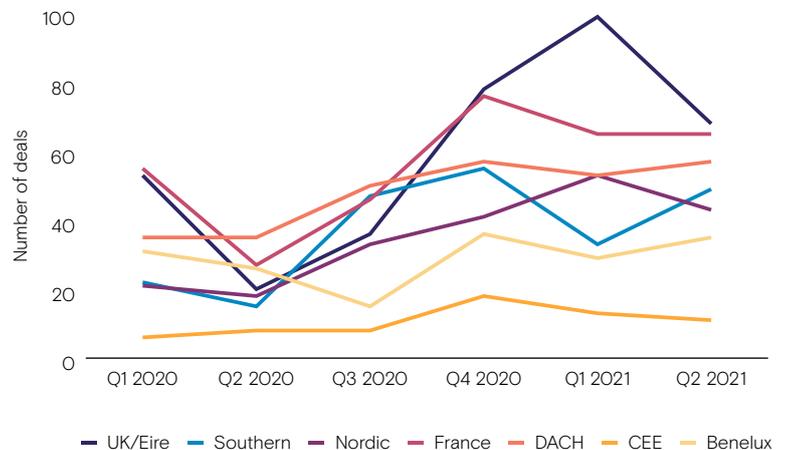
Transactions with a value of between €500m and €1bn stand out as having the highest average deal multiple of Q2 (14.5x), although this is down on the ultra-hot previous quarter (15.4x). Deals in the €1bn+ bracket maintained the high reached in the first quarter (14.2x), while those in the €250m–€500m range show an average deal multiple of 13.5x, down from 13.9x in Q1.

While deal multiples at the top end of the market show signs of levelling off or easing back, those for lower-value transactions continued to rise in Q2. Multiples in all three of the lower-value brackets (sub-€50m, €50m–€100m and

LTM MULTIPLES DISTRIBUTION BY REGION



LTM DEAL VOLUMES BY REGION



Q2 deal value reached its second highest level in seven years.



European overview continued

AVERAGE MULTIPLES OVER LAST TWELVE MONTHS – REGIONS

Start End	01/04/19 31/03/20	01/07/19 30/06/20	01/10/19 30/09/20	01/01/20 31/12/20	01/04/20 31/03/21	01/07/20 31/06/21
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Benelux	9.8	10.4	10.5	10.3	11.5	11.6
CEE	8.3	8.6	8.3	8.8	9.3	9.7
DACH	10.8	10.2	10.3	11.1	10.9	11.4
France	10.4	10.9	11.1	11.3	11.7	11.9
Nordic	11.2	11.0	11.0	11.8	12.1	12.3
Southern	9.5	9.4	9.7	10.2	9.9	10.0
UK/Eire	10.8	10.8	11.2	11.6	12.9	13.2



This publication reports averages of multiples in the last 12 months for each quarter per region, sector and deal size

€100m–€250m) all saw increases in the second quarter. The sub-€50m group (which typically accounts for 50% of deals by volume) saw the biggest rise, with the average deal multiple reaching 11.3x – the first time the multiple for this price bracket has crossed the 11x threshold in more than six quarters.

REGIONAL OVERVIEW

The UK and Ireland stands out as the top regional hotspot for the third quarter in a row, registering the most deals of any region (68 transactions), and the highest total deal value (€19.3bn). The average multiple for deals in Q2 rose to 13.2x versus 10.8x in the same quarter last year – the biggest year-on-year increase seen in any region.

The UK and Ireland also recorded the highest number of transactions with a multiple of 15x or higher over the last 12 months (31 deals). The region's closest rival, France, came in with 13 deals, closely followed by the Nordics (12 deals).

The Nordic region recorded the second highest European deal multiple (12.3x) of Q2, although total deal value (€3.2bn) was down sharply compared with the previous quarter (€12bn), in which a handful of very large deals were struck, inflating that three-month period's figures. The Nordic region is the only one in which the average deal multiple has remained at 11x or above in every quarter since the onset of the pandemic in Q1 2020.

Building on strong performance in average multiples since the start of the pandemic, France took third place with a deal multiple of 11.9x. The country has the distinction of being the only one in which the average multiple has risen consistently quarter-on-quarter since the onset of the pandemic in Q1 2020. French deal volume in Q2 2021 was unchanged versus the previous quarter (65 transactions), but the total value of deals jumped 17% to €18.4bn – Europe's second-highest deal total of Q2.

Also of note is the Southern region of Europe. This region not only saw the biggest increase in deal volume (up 49%) but also the sharpest increase in overall deal value, with total transactions worth €10.9bn – up 86% on the previous quarter – with that total driven in large part by one massive transaction. At 10x, however, its average deal multiple was the second lowest of any region in Q2 2021.

The UK and Ireland stands out as the top regional hotspot for the second quarter in a row



European overview continued

SECTOR WATCH

Healthcare scaled new heights with an average deal multiple of 14.1x in the second quarter, reflecting the continuing focus on this crucial sector by dealmakers in the aftermath of the pandemic. This is the first time the multiple for any sector has exceeded 14x in more than six quarters, and the third consecutive quarter in which healthcare multiples have exceeded those of any other sector. Healthcare deal volume in the second quarter was up by 48% compared with Q1, although deal value slid 19% to €9bn.

As with healthcare, the strong growth prospects for TMT and financial services continue to drive multiples into new territory. TMT and financial services took joint second place in terms of deal multiples, both rising to 12.7x in Q2 2021, up from 12.6x and 12.2x respectively in the first quarter. Turning to deal activity, TMT volume was down 11% in Q2 versus the first quarter, while value slipped 12% to €12.5bn (nevertheless, this was nearly four times higher than the same quarter in 2020). Financial services also saw volume slide in Q2, although total deal value shot up 76% on the previous quarter to reach €4.9bn.

Business services was the fourth hottest sector with an average multiple of 12.3x – a significant increase on the same quarter last year (10.3x). Deal volume in this sector was up 11% quarter-on-quarter, with deal value rising 5% to €10.4bn.

Although it suffered noticeably when the pandemic began and saw its multiples fall to new lows, the food and beverage space has recorded a remarkable recovery. The sector saw its average deal multiples fall to 6x in Q2 2020, but more than doubled to reach a stellar 13.8x during the same period this year. The only sector that saw a decline over this period was industrials and chemicals, which was lower in Q2 2021 (10x) than it was in the same quarter a year ago (10.1x).

AVERAGE MULTIPLES OVER LAST TWELVE MONTHS – SECTORS

	Start End	01/04/19	01/07/19	01/10/19	01/01/20	01/04/20	01/07/20
		31/03/20	30/06/20	30/09/20	31/12/20	31/03/21	31/06/21
		Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Automotive		8.9	8.4	8.2	8.3	9.8	10.0
Business services		10.0	10.3	10.8	11.0	12.1	12.3
Consumer		9.6	9.4	9.2	10.2	10.7	11.1
Financial services		11.0	11.0	11.9	12.5	12.2	12.7
Food and beverage		9.4	9.4	10.1	10.5	11.0	11.7
Healthcare		10.7	11.0	11.7	12.6	13.7	14.1
Industrials and chemicals		10.1	10.1	9.8	9.7	9.8	10.0
Real estate		8.2	8.0	8.0	9.3	9.3	10.3
TMT		11.8	11.8	11.6	11.8	12.6	12.7



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Spotlight on: UK and Ireland

While dealflow slowed in the UK and Ireland in Q2, the region remains incredibly busy – and a rich pool of attractive assets in the technology, financial and healthcare sectors has pushed average entry multiples to new heights.

At first glance, the second quarter might be seen as something of a cooldown for the UK and Irish buyout markets, which had gone into overdrive in the run-up to a potential capital gains tax (CGT) rate hike announcement in Q1. According to Unquote and Clearwater data, buyout dealflow fell by 31% quarter-on-quarter in volume terms, with 68 transactions recorded in Q2 versus 99 in the first three months of the year (and 78 in the preceding quarter).

As a result of this recalibrating, the UK and Ireland region was home to 21% of all European buyouts in Q2 – a figure much more in line with historical standards than the incredible 29% seen in Q1. In fact, the UK remains the most active market in Europe, a trend that began in Q4 2020 as the economy opened after the peak of the COVID-19 pandemic had passed.

While the quarter-on-quarter volume drop is steep, Q2 activity in the UK remained very strong by historical standards – comparing very favourably with the 45 deals seen in Q2 2019 for instance. And more importantly, the aggregate value of these transactions rebounded sharply in the second quarter: Q1 deals were worth an estimated aggregate of €16.2n, while Q2 deals came in at a very strong €19.3bn. As a result, the average value of UK buyouts in the second quarter stood at €283m, up from €164m in Q1.

This is down to the fact that most of the drop-off came from deals valued at less than €100m (from 67 deals down to 42), while activity beyond this EV cut-off experienced a much less drastic decline (from 32 to 26).

The mid-market is certainly alive and well, says Clearwater International partner Richard Goldsack: “The market is almost too busy – we have never seen so much volume,



“The market is almost too busy – we have never seen so much volume, with so many sellers bringing assets to market.”

Richard Goldsack, Partner, Clearwater International



Spotlight on: UK and Ireland

continued

with so many sellers bringing assets to market. And in terms of pricing I would say it is even frothier than the 2006-2007 days.”

Indeed, following a strong pricing hike in the first quarter, the last-12-month average entry multiple for UK buyouts stood at 13.2x in Q2 - up by nearly two and a half turns of EBITDA year-on-year and making the UK the most expensive PE market in Europe.

Goldsack notes that, amid a trend for accelerated processes where the best assets will change hands in the space of three or four months, pre-emptions are increasingly commonplace and fuelling the average valuation hike. “We used to think it was just PE doing that, but we are now seeing trade realising they have to compete with PE and move fast,” he says.

This is not to say that buyers - strategic or PE - are behaving erratically when it comes to pricing. “The approach to tech multiples, in particular, is very different these days,” Goldsack says. “This is especially true coming from the US buyers: if you look at multiples in that market, the UK is still cheap for them, comparatively.”

Meanwhile, with dealflow starting to encompass a wider range of assets compared to the pure flight to quality seen at the height of the pandemic, PE buyers in particular can still be selective and look for less punchy valuations. “There is a split in the lower mid-market,” says Goldsack. “Good businesses will be going for 12x or more, but there are still a number of less stellar assets that will still go for the typical 6-7x.”

While the technology space is undeniably the fastest growing dealflow purveyor and routinely sees multiples in the high teens, activity in other sectors has certainly not dried up. Deal volume has held up well in the UK’s industrial and healthcare sectors; and while the consumer space has clearly been affected, the pipeline could fill up quickly in the coming months once potential sellers have more visibility, says Goldsack: “The consumer space is interesting. A lot of the businesses that are getting ready to trade will probably want to wait until patterns of consumption are a bit more settled post-pandemic.”

Looking ahead, it is unlikely that investors and advisers will enjoy any extended time off until the year is out. Goldsack anticipates that dealflow will remain “very strong” for at least the next six months, with a corresponding impact on entry multiples: “Sell-side PE is really what is driving the market, cashing in on record high valuations. It is still a seller’s market and prices will likely stay high for months to come. Inflation could be the dark cloud on the horizon, but tackling it doesn’t appear to be a priority at this stage, so it is unlikely to start affecting the market significantly this year.”

CGT concerns, which clearly played a part in accelerating a number of processes around last Q4 and Q1, is also likely to continue spurring small-cap and lower-mid-market dealflow from late Q3 onward. “The tax issue is still at the back of the mind of private sellers, with the Autumn Statement on the horizon. There is a raft of people planning to come to market with a view to completing before March next year,” Goldsack notes.

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Richard Goldsack, Partner, Clearwater International



Sector focus: Food & beverage

With valuations for food & beverage assets rising significantly over the past year, Clearwater International's partner and head of food & beverage John Sheridan and managing partner Philippe Guézenc share their views on the trends driving activity and pricing in the sector.

As a relatively low-margin, stalwart sector for PE investment that is exposed to both consumer and industrial trends, food & beverage (F&B) was until recently one of the few market segments still seeing average entry multiples in the single digits. Looking at multiples over the 12 months to Q2 2020, the average entry multiple for PE buyouts in the sector stood at 9.4x EBITDA, when industrials & chemicals and support services businesses, for instance, were commanding average multiples of 10.1x and 10.3x respectively.

Fast forward a year and the average pricing for buyouts in the F&B space has increased by 2.2 turns of EBITDA to reach 11.7x in the 12 months to Q2 2021. The pace of increase has been faster than that seen for the average valuation of European PE buyouts across all sectors, which went up by 1.4x in the same timeframe. Sectors that have attracted a lot of hype, such as TMT and business services, have actually seen more modest increases in average valuations over the past year than F&B.

It is worth noting that while it does not generate a consistently high volume of dealflow, European PE players have always been attracted to the space. It has traditionally been seen as a relatively defensive sector, where GPs were able to source stable assets at attractive multiples and look to implement a number of value creation strategies ranging from professionalising smaller, family-owned businesses, to exploiting consolidation opportunities for more mature assets.

But the sector has also benefitted from more recent trends, including some that were significantly accelerated during the pandemic, explains Clearwater's head of F&B John Sheridan – namely a renewed focus on health considerations; the



“The best type of buyer for F&B assets at the moment is a PE-backed trade player.”

John Sheridan, Head of F&B, Clearwater International



Sector focus: Food & beverage

continued

fact that consumer spending has shifted from hospitality to cooking and eating at home due to lockdowns; and the accelerated uptake of digitalisation and e-commerce, resulting in a shift to direct-to-consumer channels.

"People are much more focused on healthy living, environmental responsibility, veganism, and natural ingredients," Sheridan says. "But the trend of digital transformation, e-commerce, home delivery, and a shift to the direct-to-consumer models is more specific to the pandemic and has also allowed some assets in the sector to really benefit and stand out."

As a result, dealflow in the F&B space has rebounded noticeably in recent months. The 75 deals recorded in Europe in the twelve months to June 2021, while not eye-catching compared to other, busier sectors, was up by 103% year-on-year in volume terms, according to Clearwater and Unquote data. "The number of PE players investing in this space is increasing," Sheridan notes. "In the UK, there was a decrease of around 40% in deals in the F&B space when the pandemic hit, but it has rebounded strongly."

There is a certain amount of dispersion within the multiples seen in the space, though. Premium multiples are attracted by niche B2B players, notably those that produce speciality ingredients, says Clearwater managing partner Philippe Guézenec. PE-owned food and beverage targets also tend to command heftier valuations, as they have generally been well optimised by their current PE owners and are thus considered particularly low-risk by both trade and PE suitors.

The secondary buyout (SBO) of Solina Group, announced in May, neatly illustrates both trends. Astorg entered exclusive negotiations to acquire the France-based manufacturer of ingredients and seasoning blends for the food industry from Ardian in a deal reportedly valued at €1.7bn. Solina generated EBITDA of €88m in 2020, according to Moody's.

The SBO of Valeo Foods, which owns a broad range of consumer staples such as biscuits maker Jacobs and honey producer Rowse, fetched a more modest multiple when Bain bought it from CapVest earlier this year; while the EV in excess of €1.7bn was comparable to Solina's, it equated to 10x Valeo's €170m EBITDA.

But one thing is for sure – on the buy-side, PE has not been bullied by well-funded strategics hungry for acquisitions. When Exponent bought UK-based chilled desserts producer Gü from Noble Foods in May, for instance, the GP reportedly saw off competition from the likes of Nestlé, Müller and Yoplait. "Trade buyers sometimes expect a higher return than PE, even if they have synergies, but PE buyers are often ready to accept lower returns than they might have expected in the past on mid-size to large deals," points out Guézenec.

This extends to sponsors backing their portfolio companies in pursuing consolidation plays. "The best type of buyer for F&B assets at the moment is a PE-backed trade player," says Sheridan. "This extracts the synergies, but then you have the discipline of negotiating with PE people motivated to pursue a buy-and-build strategy. It's also not just about the highest price, but also about closing the transaction fastest."

Looking ahead, the prospects for potential vendors in the sector remain strong. "A number of family-owned companies or groups selling subsidiaries are encouraged by multiples being high, and PE clearly taking a keen interest in a relatively defensive sector," says Guézenec, adding that the sector will soon benefit from an influx of new prospects. "The industry is so resilient and innovative, with many exciting startups in the sector – these could be potential targets for buyers in the coming years."

"A number of family-owned companies or groups selling subsidiaries are encouraged by multiples being high."

Philippe Guézenec, Managing Partner,
Clearwater International



ABOUT & CONTACTS

Clearwater International has a proven track record of excellent client outcomes. With 18 international offices and more than 250 employees, the business has completed over 1,950 transactions worth an aggregate value in excess of €103bn.

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

 on its reinvestment in  Buy-side Undisclosed	 sold to  Sell-side Undisclosed	 sold  to  Sell-side Undisclosed	 sold to  Sell-side Undisclosed
 on the acquisition of  from  Buy-side Undisclosed	 sold to  Sell-side Undisclosed	 invested in  Buy-side Undisclosed	 sold its portfolio company  to  Sell-side Undisclosed

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



Miquel Martí
Partner and International Head of Private Equity
Tel: +34 917 812 890
Email: miquel.marti@cwicf.com



Richard Goldsack
Partner, UK
Tel: +773 632 9722
Email: richard.goldsack@cwicf.com



Marcus Archer
Managing Partner and Head of Private Equity, UK
Tel: +44 845 052 0379
Email: marcus.archer@cwicf.com



John Sheridan
Partner, Ireland
Tel: +353 1 912 1721
Email: john.sheridan@cwicf.com



Philippe Guézenec
Managing Partner, France
Tel: +33 153 890 504
Email: philippe.guezenec@cwicf.com