

Clearwater International Multiples Heatmap

Q3 2021

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

INSIDE

EUROPEAN OVERVIEW:

In Q3, the average EV/EBITDA multiple over the last 12 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.

SPOTLIGHT ON: US SPONSORS

SECTOR FOCUS: TMT

At a glance: Q3 2021

LTM trends

Q3 2021 vs Q2 2021

In terms of the last twelve months, PE deals were up by 8% (volume) and 11% (value) in LTM Q3 2021 versus LTM Q2 2021

1,370
DEALS
LTM Q3 2021



+8% vs. LTM Q2 2021

€260
BILLION
in deal value



+11%
vs. LTM
Q2 2021

Quarterly trends

Q3 2021 vs Q2 2021

Quarter-on-quarter, volume and value rose by 2% and 5%, respectively, compared to Q2 2021

336
DEALS
IN Q3 2021



+2% vs. Q2 2021

€67
BILLION
in deal value

+5% vs. Q2 2021



Top regions

Q3 2021

For the first time in 2021, France overtook the UK/Ireland to become the top-performing region by volume in Q3 2021. Southern Europe saw the highest value (€14.2bn)

France 73 deals



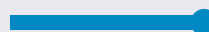
UK/Ireland 70 deals



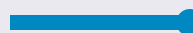
DACH 57 deals



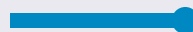
Southern €14.2bn



UK/Ireland €13.2bn



France €12.8bn



14.3x

The Nordic region had the highest average LTM multiples in Q3 2021

Top sectors

Q3 2021

The industrials and chemicals sector provided both the most deals (87) and value (€20.8bn) in Q3 2021

Industrials and chemicals 87 deals



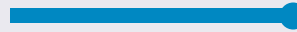
TMT 75 deals



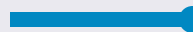
Consumer 57 deals



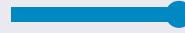
Industrials and chemicals €20.8bn



TMT €13.6bn



Consumer €12.5bn



14.3x

Healthcare and TMT were the joint hottest sectors for average LTM multiples in Q3 2021



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.

Dealmakers shrugged off concerns about inflation, supply chain constraints and rising COVID-19 cases to propel European PE activity to near-record highs in Q3 2021. Indeed, 2021 is now set to break all previous records for both volume and value. Total deal value in YTD 2021 (€203bn) has already comfortably exceeded that of any previous full year, while deal volume is on track to hit a new all-time high.

In Q3, the average EV/EBITDA multiple over the last 12 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.

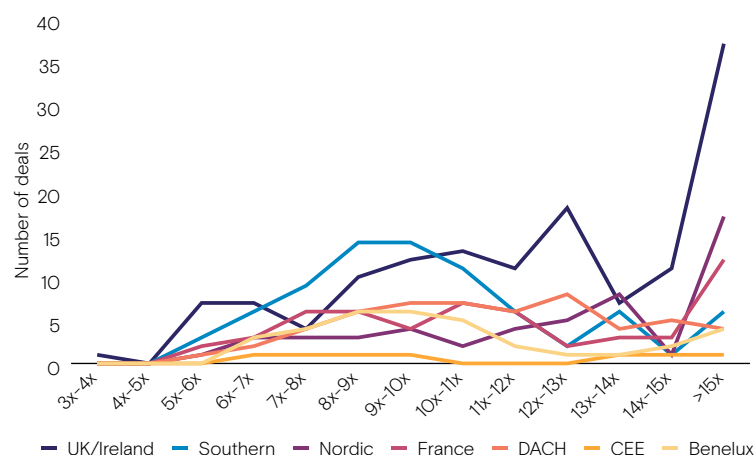
This helped to push LTM multiples into record territory in Q3. TMT was red hot, with the twelve-month multiple jumping to 14.3x – up from 12.7x in Q2. This was the sharpest rise in any sector. Healthcare and business services also broke new ground, achieving multiples of 14.3x and 12.6x respectively. Against this background, the average multiple paid in PE-backed deals jumped to 12.4x versus 11.8x in Q2.

THIS QUARTER'S HOTSPOTS

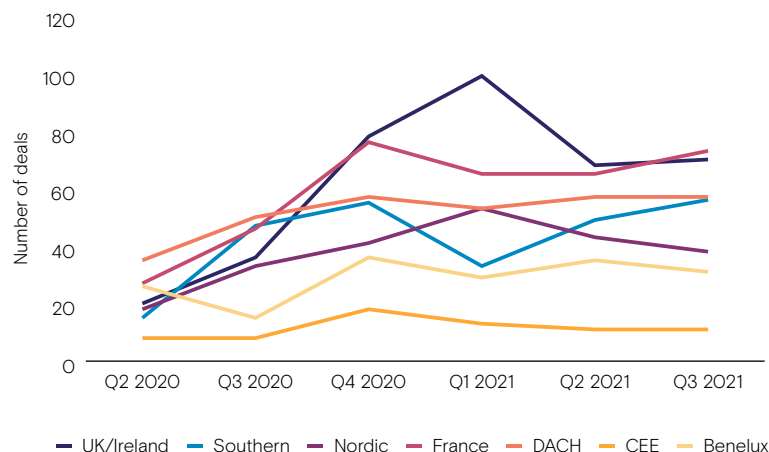
Analysis of quarterly multiples reveals that Q3 2021 was the hottest quarter ever recorded. Looking at regional performance, the Nordics stood out with a quarterly average multiple that leapt to 18.5x in Q3 from 11.7x in Q2. The DACH region witnessed a similarly stellar surge, achieving a quarterly multiple of 15.2x versus 10.1x in the previous quarter.

Turning to sectors, TMT broke new ground with a multiple of 19.1x in Q3 versus 11.6x in Q2. And in terms of deal size, transactions in the sub-€50m segment saw the sharpest rise with the quarterly multiple rocketing to 17.5x in Q3 from 12.2x in Q2. This spectacular rise was echoed at the

LTM MULTIPLES DISTRIBUTION BY REGION



QUARTERLY DEAL VOLUMES BY REGION



Total deal value in YTD 2021 (€203bn) has already comfortably exceeded that of any previous full year.



European overview continued

AVERAGE MULTIPLES OVER LAST TWELVE MONTHS – REGIONS

| | Start End | 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 30/06/21 | 01/10/20 30/09/21 |
|------------|--------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
| Benelux | | 10.4 | 10.5 | 10.3 | 11.5 | 11.6 | 11.2 |
| CEE | | 8.6 | 8.3 | 8.8 | 9.3 | 9.7 | 12.6 |
| DACH | | 10.2 | 10.3 | 11.1 | 10.9 | 11.4 | 12.0 |
| France | | 10.9 | 11.1 | 11.3 | 11.7 | 11.9 | 12.0 |
| Nordic | | 11.0 | 11.0 | 11.8 | 12.1 | 12.3 | 14.3 |
| Southern | | 9.4 | 9.7 | 10.2 | 9.9 | 10.0 | 10.5 |
| UK/Ireland | | 10.8 | 11.2 | 11.6 | 12.9 | 13.2 | 13.5 |



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

opposite end of the deal spectrum, with transactions in the €1bn+ bracket hitting a multiple of 17.3x in Q3 versus 13.7x in the previous quarter. Meanwhile, the overall European quarterly average multiple jumped to 13.9x from 11.7x in Q2.

REGIONAL OVERVIEW

Regional records were smashed across the continent in Q3 as dealmakers raced to deploy dry powder. Focusing on LTM multiples, the Nordic region took the top spot with a deal multiple of 14.3x in Q3 (up from 12.3x in Q2) – easily leapfrogging the UK and Ireland, which had dominated the multiples chart in the previous two quarters. The Nordic's Q3 LTM multiple is the highest for any European region on record since 2014.

Despite its slide into second place, the UK and Ireland still stands out as one of Europe's hottest regions for valuations with the LTM multiple for Q3 rising to 13.5x (a new high) versus 13.2x in the previous quarter. The UK and Ireland also saw deals with a multiple of 15x or more surge to a record high.

In third place – and registering the sharpest increase in its LTM multiple – is the CEE region, which saw its deal multiple leap from 9.7x in Q2 to 12.6x in the third quarter, although the number of deals involved was relatively small compared with other regions.

Elsewhere, DACH and France broke into new territory. Both regions saw their LTM deal multiple reach the 12x threshold for the first time. In the case of France, a significant proportion of deals involved a LTM multiple of 15x or more.

SECTOR WATCH

LTM multiples in both the TMT and healthcare sectors scaled new heights in Q3 2021. Spurred by ferocious competition for assets, the multiple for TMT deals leapt from 12.7x in Q2 to 14.3x in the third quarter – a record-breaking deal multiple for TMT and one of the biggest quarter-on-quarter increases on record for any sector.

Healthcare – which has gone from strength to strength throughout the pandemic period – also continued to power ahead in the third quarter. The deal multiple for the sector climbed to 14.3x, putting healthcare on level pegging with TMT at the top of the Q3 table. Business services also

The Nordic's Q3 LTM multiple is the highest for any European region on record since 2014.



European overview continued

recorded a new high, with the sector's multiple rising from 12.3x in Q2 to 12.6x in the third quarter. By contrast, the multiple for financial services fell to 12.3x in Q3 from its previous high of 12.7x in Q2.

Accelerating demand for tangible goods in the wake of the pandemic helped to spur LTM multiples in the consumer, industrials and chemicals, and automotive sectors in Q3. The consumer multiple rose to 11.5x in Q3 from 11.1x in the previous quarter, while industrials and chemicals ticked up from 10x to 10.4x. Automotive nudged ahead, clocking up a multiple of 10.2x in Q3 versus 10x in Q2, while real estate at 10.3x remained unchanged on the previous quarter.

DEAL SIZE

Focusing on deal size, LTM multiples moved decisively upwards in the majority of value categories in Q3. The highest multiples – and biggest quarter-on-quarter increases – were found both at the lower (sub-€50m) and higher (€500m-€1bn and €1bn+) bands of the market. Looking first at the higher end of the market, the continuing clamour for assets continued to drive LTM multiples into new territory. Deals in the €500m-€1bn band stand out: the LTM multiple for this segment rose to 15.2x – the highest multiple for any price band in Q3. Meanwhile, the multiple commanded by transactions in the top price bracket (deals worth €1bn or more) climbed to 14.5x, up from 14.2x in the previous quarter.

Multiples at the lower end of the market also stand out. LTM multiples in this segment typically trail the top end significantly. But 2021 is not a typical year, as evidenced by the LTM deal multiple for transactions in the sub-€50m bracket, which jumped from 11.3x in Q2 to 13.3x in Q3 – a new high.

While the multiple for sub-€50m deals rose, the proportion of deals in this segment fell over the year, sliding from 50% in Q1 to 43% in Q3. Higher valuations could be contributing to the dwindling proportion of deals in this price band.

Transactions in the €50m-€100m price range saw the LTM multiple rise from 10.5x to 10.8x in Q3, while those in the €100m-€250m band remained unchanged on the previous quarter at 11x. Meanwhile, the €250m-€500m bracket was the only one in which the LTM multiple declined, falling from 13.5x in Q2 to 13.1x in Q3.

AVERAGE MULTIPLES OVER LAST TWELVE MONTHS – SECTORS

| Start End | 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 30/06/21 | 01/10/20 30/09/21 |
|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
| Automotive | 8.4 | 8.2 | 8.3 | 9.8 | 10.0 | 10.2 |
| Business services | 10.3 | 10.8 | 11.0 | 12.1 | 12.3 | 12.6 |
| Consumer | 9.4 | 9.2 | 10.2 | 10.7 | 11.1 | 11.5 |
| Financial services | 11.0 | 11.9 | 12.5 | 12.2 | 12.7 | 12.3 |
| Food and beverage | 9.4 | 10.1 | 10.5 | 11.0 | 11.7 | 11.5 |
| Healthcare | 11.0 | 11.7 | 12.6 | 13.7 | 14.1 | 14.3 |
| Industrials and chemicals | 10.1 | 9.8 | 9.7 | 9.8 | 10.0 | 10.4 |
| Real estate | 8.0 | 8.0 | 9.3 | 9.3 | 10.3 | 10.3 |
| TMT | 11.8 | 11.6 | 11.8 | 12.6 | 12.7 | 14.3 |



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



Spotlight on: US sponsors

As competition for domestic assets intensifies, US private equity players are increasingly shifting their focus to Europe. David Cannon, Managing Director at KeyBanc Capital Markets, Clearwater International's US partner, reveals where the attractions lie for American investors.

US private equity sponsors are moving in on the European deal space like never before. To put this in context, the value of American PE investments in Europe in the first three quarters of 2021 has already exceeded that of any previous full year by more than 60%. Deal volume, also now at an all-time high, is already up more than 40% on 2020. In the current quarter alone, US buyers snapped up European assets worth €10.6bn. This represents more than 15% of Europe's overall transaction total by value and nearly 9% of deals by volume.

So, what's behind the surge of US interest in European assets? Shifts in the US deal landscape are one reason, says David Cannon, Managing Director of KeyBanc Capital Markets (KBCM), the corporate and investment banking arm of US-based KeyCorp: "Vendors are becoming much more selective when conducting sale processes. Not so long ago, sellers would often target 50 or even 100 buyers. Today it might only be six to ten. Vendors want to engage with buyers who can move quickly, have sector expertise and familiarity with the asset. M&A processes are increasingly bespoke, and this means there are inherently fewer opportunities for many sponsors."

BIG MONEY, SMALL TARGETS

Exacerbating all of this is the scale of the gap between the volume of dry powder now available (which is vast) and suitable targets (which are thin on the ground). "The US markets right now are incredibly frothy," says Cannon. "There is an exceptional amount of capital pursuing acquisitions and there is not enough deal flow to meet the demand."

PE buyers in the US are responding by looking further afield for opportunities. "The European market provides US



"Vendors want to engage with buyers who can move quickly, have sector expertise and familiarity with the asset."

David Cannon, Managing Director, KeyBanc Capital Markets (KBCM)



Spotlight on: US sponsors continued

private equity players with the chance to get into the type of processes that are no longer easily available within the American market,” Cannon says.

Focusing on geographies, the UK and Ireland are at the top of the list for US sponsors looking to invest in Europe. In value terms, the UK and Ireland is the single biggest regional target for US private equity within Europe, with investments in Q3 totalling €3.6bn. From a volume perspective, more than one-third of the 30 deals transacted by US sponsors in Europe in Q3 2021 involved targets in the UK and Ireland. Beyond that, Germany and France are also seen as attractive, and there is real interest in the Nordics, although volumes in these three geographies are typically much lower than those seen in the UK.

“The UK and Ireland are attractive to US investors, whether it’s for platform investments or add-ons,” says Cannon. “One reason for this is that there is no language barrier. But probably more important is the fact that it’s an easier buy – there are far fewer restrictions than in other European regions.” For example, acquirers have more flexibility to restructure their UK workforces than they do elsewhere. On top of this, levels of tax and social security costs in the UK are typically closer to those in the US compared with other parts of Europe. All of this makes the environment much more amenable for US buyers.

TECH CONTROL

Focusing on sectors, Cannon says that TMT and healthcare targets are firm favourites with US private equity firms looking to invest in Europe – despite record deal multiples. “These are incredibly popular sectors with our clients right now, and our healthcare team is really busy pitching and marketing assets. The tech and healthcare sectors have both thrived during the COVID pandemic and lots of those assets continue to garner high valuations – much higher than they were a year ago. The consumer and business services sectors are also active in terms of deal volume and deal value.”

TAILOR MADE

In the US, as elsewhere, the collision of high multiples and the need to align with buyer agendas is supercharging the trend towards specialisation within private equity.

“PE buyers are becoming subject matter experts. They know what they want to own, they understand it, and they are much more targeted,” observes Cannon. “Buyers are increasingly differentiating themselves in this way. And it means they are much more likely to be included in the bespoke M&A processes that are emerging.”

Having a deeper sector knowledge and clearer strategic focus helps to take the sting out of currently high valuations. “Firms that want to own best-of-breed assets are prepared to pay up,” says Cannon. “One thing we are seeing a lot more of now is private equity firms moving acquisitions into single-asset funds – sponsors want to hang on to high-quality assets for a few more years because they think there’s meaningful upside.”

With US deal flow under pressure, American private equity activity in Europe is only likely to increase. “Cross-border deals can be incredibly rewarding. But you need local expertise to succeed,” stresses Cannon. “It’s incredibly important to have trusted advisors, counsel and people who can guide you through all the various aspects of an acquisition – including what’s coming to market, before it comes to market. There is no substitute for having boots on the ground.”

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Sector focus: TMT

The sky's the limit for TMT – or so it seems. With tech multiples now at record highs, Clearwater International partners Nathaniel Cooper and Per Surland explain where the attractions lie and what the future could have in store.

Technology continues to enthrall private equity investors. Over the past 12 months, TMT has recorded more deals than any other sector (358) and clocked up the second-highest aggregate deal value (€51bn). TMT's Q3 multiples – 14.3x LTM and 19.1x on the current quarter – are the highest on record.

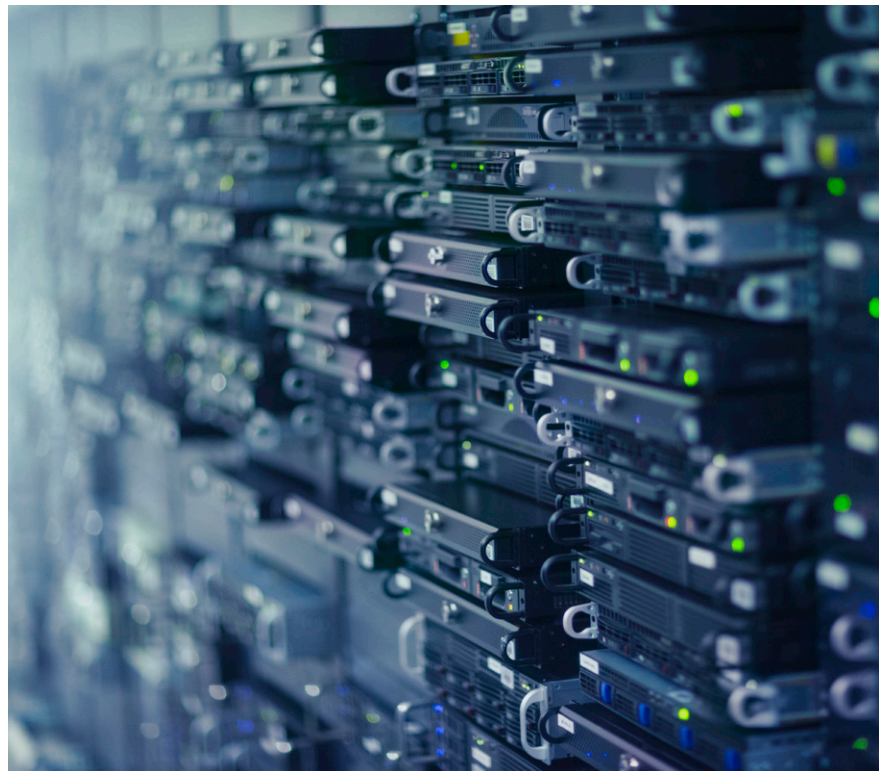
The stellar performance of TMT has deep roots. Since traversing the 10x threshold back in Q2 2016, average multiples for the sector have never fallen back. In fact, TMT is the only sector where the deal multiple has remained consistently above 10x over the past five years.

THE TECH'S FACTOR

So, what makes TMT so attractive – and why are deal multiples now so high? Abundant dry powder aside, there are two major drivers in play.

First, TMT offers classically attractive business models. "Software as a Service (SaaS) and subscription-based data services are examples: they're asset light, predictable and offer high cash flow with gross margins over 80%," says Clearwater International partner Nathaniel Cooper. "Once you've built the capability, you can sell it many times over. Private equity loves this model, and the appeal is clear, particularly when things are getting hot in terms of valuations."

The second big driver is the need for businesses to build resiliency – particularly in the wake of COVID. "The pandemic accelerated digital behaviour – and no matter what happens in the economy, corporates need to get their hands on the best technology to futureproof their businesses," says Cooper. "Survival means investing in both consumer-facing and back-end infrastructure that is digital. This includes marketing, because now you've got to find your customers online. This is a ten or 20-year growth trajectory and there is no turning back from this."



“Survival means investing in both consumer-facing and back-end infrastructure that is digital.”

Nathaniel Cooper, Partner, Clearwater International



Sector focus: TMT continued

Competition for deals is intense – there just aren't enough targets for PE to deploy all of its capital. One consequence of this is the trend towards investors looking at tech businesses that are project-based rather than powered by recurring revenues. Some of these businesses are growing at 40-50%+ plus per year and can attract multiples in the high teens.

Related to this are super-hot subsectors such as fintech, where TMT and financial services converge. "Tech players are looking to tap into a trillions-dollar market that's already there," Cooper says. "Clearwater recently did a great growth round for nudge, which combines financial services and employee financial wellness. This traded at a 10x revenue multiple."

Digital infrastructure remains patchy. In Germany, for instance, digital networks lag behind the rest of Europe, something that made home schooling and remote working tough during COVID. There is clearly headroom to build-out networks in some geographies. But even in regions with good digital infrastructure, such as the Nordics, the clamour for digital transformation is huge and growing.

MAKING THE TRANSITION

The energy transition is an increasingly important digital driver, says Clearwater International partner Per Surland: "Legally-binding emissions targets mean that electrical power is going to become more important. Deeper and more pervasive electrification will depend on digitalisation." Fibre and 5G are part of the story, but so are software applications and services. "These underpin everything from vehicle charging to balancing power grids and enabling communications between market actors. The ability to manage energy flows across the grid will become critical as power storage and conversion technologies – such as power-to-x – become prevalent. All of this will hinge on digital technology," predicts Surland.

Aside from SaaS, fintech and grid tech, several other TMT niches are gaining strong interest. The digital marketplace subsector is one of these and growth is huge. Digital marketplaces aggregate supply and demand, allowing sellers of products and services to find customers more efficiently. Clearwater recently advised sneaker marketplace NAKED Copenhagen on its sale to Groupe Courir and is currently advising on similar UK-based transactions.

Data aggregation and analysis continues to attract PE buyers. "Digital solutions around last-mile logistics is another hotspot," observes Surland. "This is about e-commerce enablement: building the systems and processes to get goods to consumers. Clearwater recently advised both on Webshipper's sale to nShift and Reconomy Group's acquisition of Reverse Logistics."

Turning to buy-side strategies, Cooper notes that PE is doing much more thesis investing: "If they've done the work on a sector – maybe tried to buy something and failed – they want to leverage that knowledge to acquire something similar. Simultaneous bolt-ons are another trend: these help to justify high deal multiples, so when you look at your post bolt-on, post synergy multiple, it's not necessarily 20x."

Looking ahead, buyers need to think laterally about future value creation to justify high multiples. Overpaying by three multiples doesn't matter if you are growing at 50% a year because at the end of your five-year hold period, you're going to be looking good. At the same time, PE players are keeping a weather eye on the interest rate environment. "Right now, the market is pricing in moderate rate increases," says Surland. "But sustained high rates would clearly weigh on the value of future cash flows and therefore valuations."

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Per Surland, 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 2,012 transactions worth an aggregate value in excess of €105bn.

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

| | | | |
|---|--|--|--|
|  <p>acquired a minority stake in</p>  <p>Buy-side Undisclosed</p> |  <p>backed by</p>  <p>acquired</p>  <p>Buy-side Undisclosed</p> |  <p>sold</p>  <p>to</p>  <p>Sell-side Undisclosed</p> |  <p>on its investment in</p>  <p>Buy-side Undisclosed</p> |
|  <p>on the sale of</p>  <p>to</p>  <p>Sell-side Undisclosed</p> |  <p>sold to</p>  <p>Sell-side Undisclosed</p> |  <p>acquired</p>  <p>Buy-side Undisclosed</p> |  <p>acquired a majority stake in</p>  <p>from</p>  <p>Buy-side Undisclosed</p> |

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