CLEARWATER INTERNATIONAL

Clearview

Q4 2019

Multiples Heatmap

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

Inside:

- Multiples see first increase since Q1 2019 across Europe
- Irish market overview
- Healthcare sector focus

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European Overview

This report identifies key themes driving European Private Equity (PE) deals' EV/EBITDA multiples on a quarterly basis. The objective is to assist PE investors in understanding drivers behind value trends across regions and sectors, leading to good investment opportunities.

For the first time since Q1 2019, this quarter saw a slight increase of just over 1% in average multiples paid in PE backed transactions throughout Europe when compared with the previous quarter. This reverses the trend of gradual decline in average multiples since Q1 2019.

In line with the last two quarters, the Nordic region again saw the highest average multiples paid in PE transactions, also up nearly 5% on the previous quarter. Average multiples in the region have consistently been over 10x since Q3 2018.

Following a steady multiple decline through 2019 the DACH region saw the largest increase against the previous quarter with a jump of over 6%. Benelux and France saw more modest increases of 5% and 3% respectively.

The UK and Ireland was the second hottest region in terms of multiples, up 1% on the same quarter in 2018 but down 1% on the previous quarter. Since Q4 2018, average valuations in the region have been relatively stable, varying by less than 0.5x in the period.

There was a sharp decline in valuation in Central and Eastern Europe in the quarter, with a decline of nearly 6% when compared to the previous quarter, and 9% when compared to the same quarter in 2018. Multiples were also the lowest of any of the regions in our analysis.

The Southern region also saw a decline in multiples when compared to the previous quarter, despite an increase of over 2% against the same quarter in the previous year. Average multiples in the region have been fairly consistent since Q3 2018.

European Overview

For the first time since Q4 2018, the financial services sector didn't deliver the hottest average valuations, despite a modest increase in average multiples of 1% on the previous quarter. The sector saw the second highest average multiples, despite being slightly lower than peak valuations of over 12x in Q1 and Q2 2019.

The highest average multiples for the quarter were seen in the TMT sector and the sector also delivered its highest average multiple for the quarter since Q1 2019.

The healthcare sector was the next richest sector in terms of valuation despite a small decrease in average multiples from the previous quarter. The sector delivers consistent valuations with the range of averages shifting by no more than 0.5x over the last six quarters.

Modest growth was also seen in industrials and chemicals in comparison to the previous quarter and the same quarter in the previous year.

The consumer sector saw a slight reduction in average multiples for the first quarter since Q4 2018. Prior to Q4 2019, multiples steadily increased by an average of 1% per quarter.

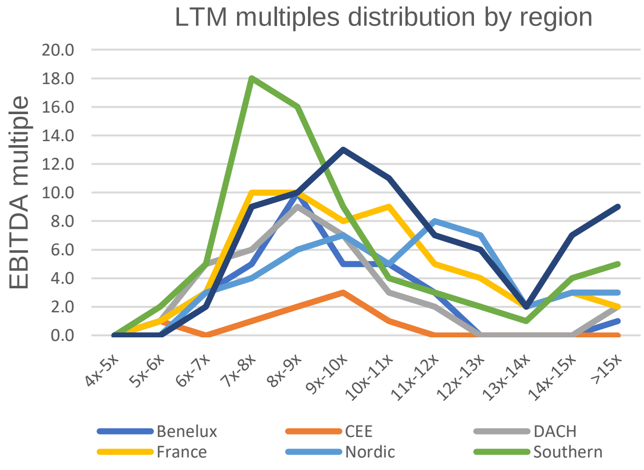
Business services saw the most significant jump in average multiples in the quarter, increasing by over 4%. However, this increase comes from their lowest average valuation seen for a number of quarters in Q3 2019. Prior to Q4 2019, the sector had seen valuations reduce by an average of over 3% per quarter since Q4 2018.

In terms of deal size, and for the second quarter in a row, the highest valuations were seen in transactions >€1bn, despite being down over 2% on the previous quarter.

The second hottest deal range was €500m-€1bn for the third quarter in a row, despite being nearly 5% down on the previous quarter. For the fifth quarter in a row, the €250m-€500m was the third richest deal range, being up over 7% on the previous quarter.

The sub €250m categories all saw modest growth against the previous quarter and the same quarter for the previous year, with the €50m-€100m range delivering the lowest average multiples of any category.

In this quarter, the Multiples Heatmap focuses on trends seen in the DACH region and the business services sector.



Start	01/10/2017	01/01/2018	01/04/2018	01/07/2018	01/10/2018	01/01/2019
End	01/10/2018	01/01/2019	01/04/2019	01/07/2019	01/10/2019	01/01/2020
	Q3 2018	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019**
Benelux	9.8	9.6	9.6	9.3	9.4	9.9
CEE	10.4	9.3	9.8	9.0	9.0	8.5
DACH	10.4	10.1	10.2	9.9	9.9	10.5
France	10.4	10.3	10.5	10.3	10.3	10.6
Nordic	11.2	11.0	11.5	11.2	11.0	11.5
Southern	9.4	9.2	9.3	9.4	9.6	9.5
UK/Eire	10.3	10.5	10.9	10.9	10.8	10.7
Europe	10.3	10.2	10.4	10.2	10.2	10.3

Ireland highlights

Ireland has seen record high multiples, driven by international interest and a strong economy, but high multiples are not expected to rise any further in 2020, says Clearwater International Partner John Curtin.

In the past five years, Irish M&A has seen unprecedented activity, and with that, increasing entry multiples. Illustrating the buoyant sellers' market, the value of buyouts in 2019 reached €3.5bn, the highest level since 2006, according to Unquote Data.

Curtin points out the strength of the economy has contributed to the high-multiples environment. "Banks are in a stable position so there's a high availability of capital" says Curtin. Alternative debt firms also contribute to the level of capital available.

With the growth of entry multiples in the Irish market and the amount of dry powder in private equity coffers, Curtin says he's seen fund managers outbid trade buyers in several processes. "Normally a large trade player would be able to pay more for the synergies they can achieve with an asset but there's a lot of capital available and PE buyers are going to pay up for quality assets, particularly with contracted revenues," he says.

In addition, Ireland has caught the attention of international players. UK private equity firms particularly are looking at Ireland as an alternative to UK-based investments. Curtin says: "There are clearly high-quality assets on offer."

International attention

Clearwater has also sold several assets to international PE backers. These include the sale of KB Associates to ECI and Version 1 to Volpi Capital. Other international investors in Ireland in 2019 include Waterland Private Equity, Charterhouse Capital Partners and Blackstone. Both Waterland and Blackstone have offices in Dublin.

Curtin says spending time in Ireland can be a way to combat high multiples. Building relationships with entrepreneurs and management teams and educating business owners on private equity can be the key to clinching a deal. "There have been a number of bilateral deals done by smart international fund managers who have spent the time here" says Curtin.

Additionally, vendors are beginning to choose acquirers on factors other than the price they can offer. Certainty of the deal being executed and offering committed funding can be very important in a sales process. Management teams also consider the relationship they have with their acquirers as vital. "From a PE perspective, you're on a journey for 3-7 years. You need to be able to work with each other," says Curtin.

Sector perspective

As is the case with the rest of Europe, technology companies in Ireland are commanding the highest multiples of any sector. In Q4 2019, the average entry multiple for TMT reached 12x, beating financial services at 11.9x. Says Curtin: "There are companies that are not making profits that are achieving 6-8x revenue multiples upon sale."

Across Europe, the average entry multiple in the industrials sector reached 7.5x EBITDA in Q4 2019, the lowest performing sector. Says Curtin of Irish industrial companies: "Low-margin, industrial businesses with no recurring revenue will have difficulty achieving high multiples. Many of them are domestic businesses so they're difficult to scale and grow internationally."

The general sentiment for activity in 2020 is highly positive. "Activity in Q4 fell off a little bit, but when the new year kicked off it was all systems go. We have a very strong pipeline." Curtin expects multiples to remain steady in 2020. "It wouldn't be a good thing for them to increase significantly, from the levels seen in 2019. It was a blockbuster year."

John Curtin
Partner - Ireland

Katharine Hidalgo
Reporter, Unquote

Healthcare insights

Dealflow in European healthcare is booming and a mix of demographics, government policy and consolidation opportunities looks likely to ensure this continues. Ramesh Jassal, Head of International Healthcare at Clearwater International, talks to Unquote about the key trends in the area.

The number of private equity-backed buyouts in the European healthcare space has risen strongly in the last decade. In 2019, 107 healthcare businesses were acquired by financial sponsors, according to Unquote Data; this represents a new high-point for the industry and is more than three-times the volume of deals recorded a decade earlier. What's more, in the last three years, deals worth over €65bn were recorded, more than the previous eight years combined.

Clearly one of the drivers of growth, as Ramesh Jassal points out, is the sheer volume of capital available to be deployed by financial sponsors following several years of exceptional fundraising, and this is bolstered by a plentiful supply of debt from high street banks and credit funds. "If you combine this liquidity with a scarcity of good targets that have solid management teams, multiples will inevitably be driven upwards." Of course, this is not unique to the healthcare space and other industry segments have benefitted from the deal-friendly conditions.

However, there are a number of important underlying trends which are driving the market – especially on the domestic front. "From the perspective of dealflow in the UK, much of the M&A activity we are seeing is in the health and social care space" says Jassal. "The NHS is under a lot of pressure to make cuts and to focus the funding they have on more acute healthcare areas such as surgical, A&E and oncology. As a result, activities focused on chronic and non-critical conditions that can be managed in the community are being pushed that way under the mantra of access, affordability and quality of outcomes."

Examples of this are in areas such as IVF and cataract procedures, dental care and cosmetic surgeries and in these situations, the buyer rationale is shifting more to a consumer model: "In many areas, patients are becoming more like consumers: they want to be better informed and more in control of the treatments they opt for", says Jassal. "Healthcare providers are also increasingly digitised and app-based and this is also attracting PE money and robust valuations", he continues.

A key thing to bear in mind when considering the health and social care space is that austerity is highly unlikely to go much further. This means that the tariffs and funding from the state will surely rise in the medium-term, so it is very important for businesses to be embedded in the system and providing services to hospitals and care authorities. As time goes on, new independents trying to get into the system are likely to face higher barriers to entry and difficulties in gaining scale.

> **"From the perspective of dealflow in the UK, much of the M&A activity we are seeing is in the health and social care space.**

Ramesh Jassal,
Director and International Head of Healthcare

Julian Longhurst
Head of Data & Research, Unquote

Healthcare insights

Indeed, the search for scale in many of these social care and consumer care subsectors, as well as in areas such as childcare, is a key strategy: financial and strategic buyers are looking for opportunities to consolidate highly fragmented markets. For example, as Jassal points out, there are over 20,000 nurseries in the UK and so buy-and-build strategies will be very much in evidence and backers seen to consolidate. There are also strong parallels with the dental and pet-care subsectors. Businesses here are trading at high single digit and low double-digit multiples.

In other segments of the healthcare market such as medical equipment and supplies and pharma/biotech, businesses are already well consolidated in the UK, and therefore dealflow here is more globally or regionally driven, with buyers seeking ‘access to payers’. However, in comparison markets in key Continental regions such as Germany is very fragmented and dominated by many smaller and medium-sized family-owned businesses. A number of GPs have active on the Continent following buy-and-build strategies in the healthcare and equipment space (Nordic Capital, Waterland, EQT,etc).

Overall, against the backdrop of aging populations across Europe, the trend towards shifting non-critical care away from the public sector and the increased consumerism in the healthcare space, the prospects for continuing high levels of dealflow are strong.

Name	Subsector	Backer
LGC	Biotechnology	Cinven, Astorg
Care Management Group	Health Care Providers	AMP Capital
Dentix	Health Care Providers	KKR
Direct Healthcare Group	Medical Equipment	Archimed
Dental Care Group	Health Care Providers	G Square Capital
Pebbles Care	Health Care Providers	Ardenton Capital
Bluecrest Health Screening	Health Care Providers	Vespa Capital
Sandcastle Care	Health Care Providers	Waterland
Sk:n Group	Health Care Providers	TriSpan LLP

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Selected Clearwater International private equity transactions from the last quarter

Off-Piste Wines
received investment from
BGF
Sell-side
Undisclosed

AVEDON CAPITAL PARTNERS
raised finance to support the acquisition of
hauck FUN FOR KIDS
Acquisition finance
Undisclosed

adonia medical group ltd
sold to
sk:n
a portfolio company of
TRISPAN
Sell-side
Undisclosed

TIKEHAU CAPITAL ATLAND
sold a real estate portfolio operated by
elis
to
Blackstone
Sell-side
Undisclosed

GRUPO HISPAMOLDES
sold to
QUARZA INVERSIONES
Sell-side
Undisclosed

MML RETURN ON IDEAS
invested in
SPENCER OGDEN
Buy-side
Undisclosed

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