

# Clearview

Q1 2019

## Multiples Heatmap

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

### Inside:

- Increase in multiples across Europe
- Focus on TMT
- Overview of the UK market



[clearwaterinternational.com](http://clearwaterinternational.com)



# Executive summary

**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.**

The average value for PE backed transactions in Q1 2019 increased by nearly 15% when compared to the previous quarter, and there was a 10% increase in the average multiple when compared with the same quarter in 2018.

The hottest region for the quarter was the Nordic region with the average multiple being 14% higher than the next closest region, the UK and Ireland. The Nordic region's average multiple jumped over 40% from the last quarter and was the highest we have seen in the region since our analysis began.

Also for the first time since our analysis began, the DACH region experienced the lowest average multiple of all the regions despite an increase of 17% compared with the previous quarter.

Pricing increases were seen in all other regions in the quarter with the Southern region experiencing its highest average multiple since Q1 2017 and Benelux experiencing its highest average multiple since Q2 2017. Central Europe and France experienced more modest growth with 11% and 6% respective increases in average multiple when compared to the 2018 average.

The financial services sector saw the richest pricing in the quarter, with the average multiple in the sector up 16% from the average in 2018. The financial services sector was closely followed by the TMT and healthcare sectors where multiples were up 30% against the previous quarter.

The consumer sector also saw strong growth with the average multiple being the highest since Q2 2017. The average multiple in Q1 2019 was also up 15% against the average multiple for 2018.

Multiples remained flat for the quarter in both the business services and industrials and chemicals sectors and the average multiple was down 6% and 3% respectively when compared to the average in both sectors in 2018.

In terms of deal size and for the third quarter in a row, the highest multiples were seen in the >€500m deal range despite a drop in the average multiple of 4% in Q1 2019 versus the average from the previous two quarters.

Deals valued in the €50-250m range saw the greatest volatility with a 29% increase in the quarter at the upper end of the range and a more modest growth rate of 9% in the lower end of the range. Despite a 5% increase in the average multiple, the sub €50m category saw the lowest pricing of PE backed transactions in the quarter.

Deals in the €250-500m range saw an increase of 15% in the average multiple for the quarter, but the increase when compared to the 2018 overall average was more modest at 5%.

In this quarter, the Multiples Heatmap focuses on trends seen in the UK region and the TMT sector.

**Pricing increases were seen in all regions.**

**The Nordic region saw an increase in the average multiple of over 40% compared to the previous quarter.**

**The financial services sector saw the richest pricing with the average multiple up 16% from the average in 2018.**



# TMT focus

## Private equity interest in B2B SaaS firms has been strong. Clearwater International's Wesley Fell-Smith talks to Unquote about how far the current investment wave has to go.

Recent years have seen high levels of PE activity in the B2B SaaS space across Europe. Just last month Clearwater advised on the PE sale of Kirona, a provider of field service management software used by social housing firms. Investment in enterprise resource planning (ERP) firms such as these, especially those focused on verticals, has been growing and there is every reason to expect this expansion to continue.

Success in the ERP space has been enabled by a number of factors. Firstly, advances in mobile technology, tracking and telematics allow data to be collected and used in more useful ways as well as allowing it to flow between remote workforces.

"Workforce and resource management are going to be big growth markets over the coming years," says Wesley Fell-Smith, Director at Clearwater International. "They've been around for a while - the user cases are becoming proven, with scheduling and efficiency increasingly demonstrated to be robust, and the ability to use data more meaningfully is becoming more credible."

The second reason is the potential for expansion and cross-selling. "You used to sell a piece of software and that was its end-case, now you can bolt on packages that manage an ever broader proportion of your business. It gives opportunity to expand, to use data more efficiently and automate more processes," Fell-Smith says. "PE is excited about it. You've got captive customer bases to which you can cross-sell products and capture proprietary data. There's a lot of sectors in which that's happening."

A third factor is the potential for greater adoption. The biggest growth has been in products targeted at large businesses, which are likely to be replacing a previous product, but

there's very low use of such software by SMEs. "The adoption and penetration rates to date have actually been pretty low overall," says Fell-Smith. "You've got a lot of consolidated sellers competing with one another for enterprise clients, but that's swapping out enterprise products. The SME market seems to be where the greatest opportunity is because there's less penetration. Low penetration markets are where people are focusing because that's where the growth is going to come from, rather than being a replacement in more mature markets."

Another related growth area has been in specialist B2B information providers, which has seen deals like HG's acquisition of Financial Express, Bridgepoint's acquisition of PEI Media and Synova's investment in Mintec. "Those firms are vertical specialists, the ability then to have analytics tools and workflow tools to sell into that vertical base is hugely valued," says Fell-Smith.

As the sheer quantity of company data continues to grow, utilising this effectively will become increasingly important especially in competitive industries like e-commerce. Clearwater recently advised Mouseflow, which provides session replay technology, on its sale to Offspring Capital, but the key to the success of these companies is the ability to analyse and present data in a user-friendly, easily actionable way.

### Revenue over earnings

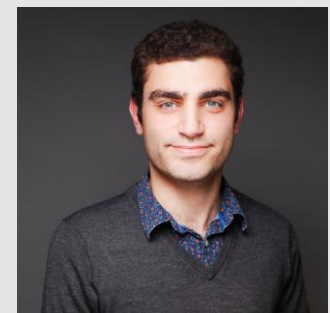
A feature of the US market that may yet engulf the European market is a greater focus on revenue rather than EBITDA in valuations for SaaS firms. In the US, deals for such firms have completed on a revenue multiple basis for some time and the so-called rule of 40 for evaluating SaaS firms – the idea that the revenue growth rate plus profit margin should exceed 40% – has crept into everyday language.

A shift may be prompted by the need to compete with US firms consolidating in their respective markets. These US firms expanding into European markets are tending to focus on the growth potential of their acquisitions rather than earnings. For instance, Clearwater recently advised Poppulo on its investment from Susquehanna Growth Equity, a US based fund with the deal based on a revenue multiple valuation. "Whether Europe will start going after those revenue-multiple-backed deals in order to compete with those US consolidators is something we'll have to wait and see," says Fell-Smith.

Wesley Fell-Smith  
Director, TMT



Christopher Papadopoulos  
Research Editor, Unquote



# UK: increased caution



## Clearwater International's Marcus Archer talks to Unquote about the ways extra caution has affected the UK private equity market since the vote to leave the European Union.

The PE market in the UK has maintained momentum and some of its pre-vote exuberance, but below the surface there is increased caution and selectiveness over deals.

Many areas appear unscathed. "Sectors not impacted by Brexit remain extremely competitive; TMT, healthcare, financial services and business services, for example," says Marcus Archer, Clearwater Partner and Head of Private Equity, UK. However, businesses in any sector can find the potential for investment falls quite fast if there are any doubts hanging over its potential.

"If there is a business which has not got a best-in-class management team or has any issues in current trading, vendors can be surprised by how valuations and interest levels drop off quickly," Archer says.

There is certainly no shortage of opportunities coming through, he adds, but even when PE can spot promising opportunities in Brexit affected sectors, lenders may not share their confidence.

"There are very high-quality assets in the consumer sector with good teams that are growing successfully but are struggling to raise bank debt," Archer says. "Banking appetite is certainly impacting consumer sector valuations in some verticals."

### Trade tendencies

Demand from trade buyers has also seen some added hesitance, and this has led PE vendors to take a more considered approach to the sales process, making sure there is enough demand in the market first.

"There has been a softening of interest from European buyers, but interest from the US and Asia continues to be high in most sectors," says Archer. "Interest in financial services continues to be strong, and

people across the world are seeing opportunities in the UK."

Demand from trade for industrials is also relatively robust, especially for firms with good management who are using more technology in the manufacturing process. There has been some softening, but this has also been global.

"Anything with a digital/tech model rather than a traditional model is going to be attractive to trade buyers, and that's across all sectors," says Archer.

There is even trade buyer demand for some of the more Brexit exposed areas of the UK market, such as the consumer sector. "Here they are taking a 10-20 year view rather than the typical PE three-to-five year view, which should take them well beyond Brexit. Trade buyers can be quite competitive when they take this approach", Archer says.

While uncertainty may have slightly disrupted the UK market, it has been good business for political consultants, many of which have branched into political due diligence. Political due diligence was once exclusive to deals involving a firm dependent on government revenue streams, but now it is far more commonplace.

"Political due diligence emerged a good few years ago. It's becoming a must-have on deals, especially on any business where government funding or Brexit has any impact on its business model or future funding streams. Five years ago it was confined to areas such as healthcare and education," says Archer.

Brexit has not been a disaster for the market so far, but it has created some delay, extra expense and weaker price pressure for those assets not considered best-in-class.



Political due diligence emerged a good few years ago. It's becoming a must-have on deals, especially on any business where government funding or Brexit has any impact on its business model or future funding streams.













**Marcus Archer**  
Partner and Head of Private  
Equity, UK



**Julian Longhurst**  
Head of Data & Research, Unquote




## Recent Clearwater International private equity transactions

 <p> LIVINGBRIDGE</p> <p>sold</p> <p> KIRONA Intelligent Mobile Solutions</p> <p>to</p> <p> advanced</p> <hr/> <p>Sell-side Undisclosed</p>	 <p> CERENICIMO</p> <p>shareholders sold their stake to</p> <p> BLACKFIN CAPITAL PARTNERS</p> <hr/> <p>Sell-side Undisclosed</p>	 <p> ide pro</p> <p>received investment from</p> <p> BLUE<sup>o</sup> Equity</p> <hr/> <p>Sell-side Undisclosed</p>
---	---	--

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



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



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



**Wesley Fell-Smith**  
Director, TMT, UK  
Tel: +44 845 052 0397  
Email: wes.fell-smith@cwicf.com