Clearview

CLEARWATER INTERNATIONAL

Q2 2019

Multiples Heatmap

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

Inside:

- Decrease in average multiples across Europe
- Overview of the Nordic market
- Industrials & chemicals 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.

Q2 2019 saw a 2% decrease in Last 12 Months (LTM) average multiple for PE-backed transactions across Europe when compared to Q1 2019, but at a consistent level to multiples seen in the same quarter in 2018.

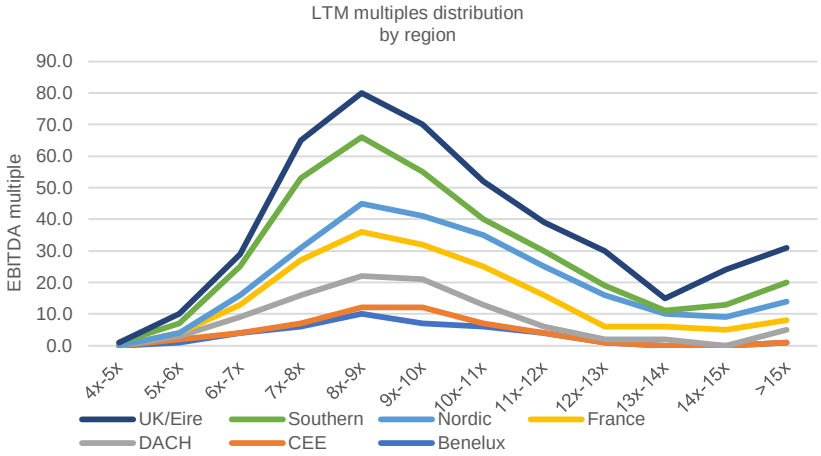
As the table below shows, for the sixth quarter running, the highest LTM average valuations for PE backed transactions were seen in the Nordic region, despite a 3% reduction on the previous quarter.

The UK and Eire and the Southern regions saw LTM average multiples remain broadly flat with the UK and Eire experiencing the second highest average multiple of any region.

The DACH, French and Benelux regions each saw a 2-3% decline in LTM average multiples compared with the previous quarter. This represents a continuing steady decline in Benelux region for the past 6 quarters, and in DACH for the past 4 quarters.

Central and Eastern Europe saw the lowest valuations with an LTM average multiple of 9.0x, down 8% on the previous quarter. The average is also down 16% on the same quarter in 2018.

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



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

Q2 2019 saw a 2% decrease in average multiple for PE-backed transactions when compared to the same quarter in 2018.

The Nordic region remains the strongest geography in terms of multiples, with the average multiple 3% higher than the second hottest region, the UK & Eire.

The highest volume of PE transactions at an LTM average multiple of 8-9x with the UK and Eire tightest clustering of valuation multiples.

European overview

Sector wise, the richest valuations were seen in Financial Services for the third consecutive quarter. The average LTM multiple was up 1% on the previous quarter but 21% up on the same quarter in the previous year.

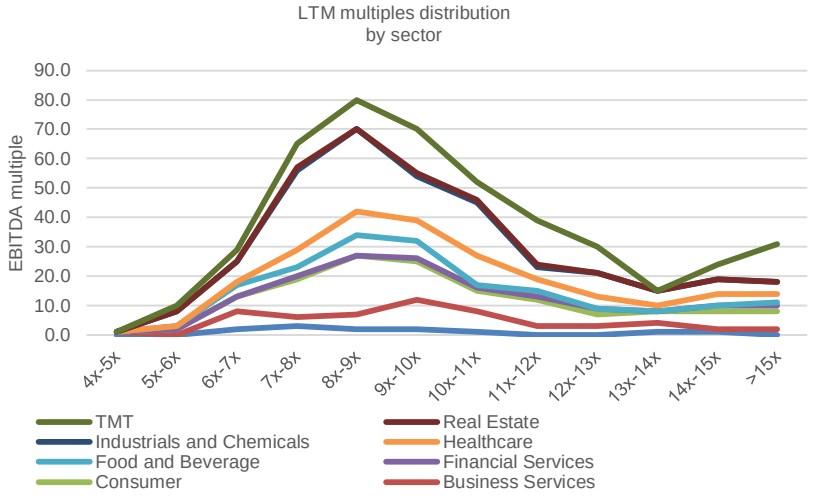
The Automotive sector also saw a small 1% increase in LTM average multiple versus Q1 2019, and demonstrated continuing valuation stability over the past 4 quarters.

The Food and Beverage sector replaced Automotive as the best value sector, with LTM average multiples falling by 5% in the quarter and steadily declining by 14% over the past 6 quarters.

TMT sector also saw an LTM average multiple decline of 5% in the quarter, taking valuations back to the levels seen in early 2018.

There were small decreases in average LTM multiples in Q2 2019 for Business Services and Industrials and Chemicals with each seeing just a 1% decrease versus the prior quarter. However, the decline when compared to the same quarter in 2018 was more significant, with drops of 5% and 4% respectively.

Start End	01/04/2017 01/04/2018	01/07/2017 01/07/2018	01/10/2017 01/10/2018	01/01/2018 01/01/2019	01/04/2018 01/04/2019	01/07/2018 01/07/2019
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Automotive	8.8	8.2	9.0	9.1	9.1	9.2
Business Services	10.7	10.5	10.4	10.4	10.1	10.0
Consumer	10.0	9.6	9.7	9.6	9.9	10.2
Financial Services	10.3	10.3	10.7	11.5	12.4	12.5
Food and Beverage	10.3	10.2	9.9	9.5	9.4	8.9
Healthcare	10.5	10.6	10.8	10.5	11.0	10.8
Industrials and Chemicals	10.0	9.9	9.9	9.6	9.6	9.5
Real Estate	9.0	8.7	9.4	10.1	11.3	9.8
TMT	10.9	11.6	11.6	11.5	12.0	11.4
Europe	10.3	10.2	10.3	10.2	10.4	10.2



The industrials & chemicals sector saw a small decrease in multiple value this quarter, with most other sectors also seeing a reduction.

Transaction volumes for most sectors peaked at 8-9x multiples, with the tightest clustering seen in TMT and the broadest range in business services where deal volumes peaked at 9-10x.

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

European overview

In terms of deal size in Q2 2019, the richest valuations were seen in transactions >€1bn, with an average LTM valuation of 13.1x which is up 9% on the previous quarter.

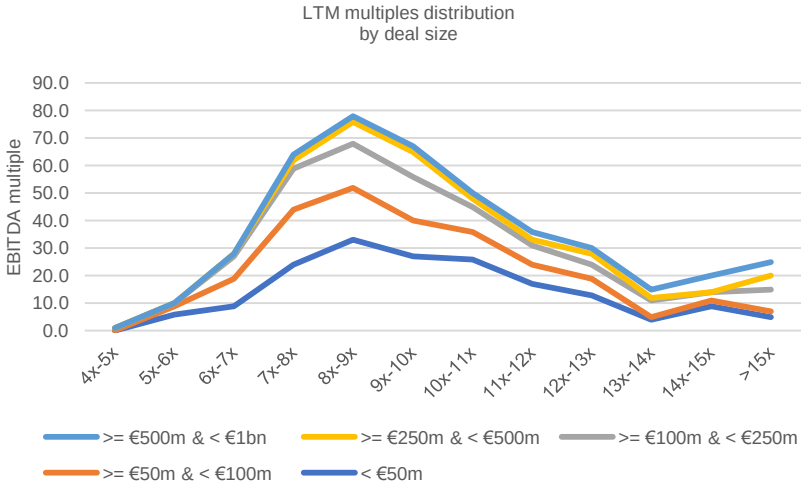
In the previous quarter, deals in the €500m-€1bn range saw the highest average LTM multiple but in Q2 2019, this was only the second highest deal range, despite a 3% increase against the previous quarter.

Transactions in the three sub €250m categories all saw 1% reductions in average LTM valuation when compared to Q1 2019 and the €50m-€100m saw the lowest average valuation of any category.

The largest drop in average LTM multiple was experienced in the €250m-€500m category with a drop of 7% versus the previous quarter in addition to a 5% drop when compared to the same quarter in 2018.

This month the Heatmap focuses on the Nordic region and the Industrials and Chemicals sector.

Start End	01/04/2017 01/04/2018 Q1 2018	01/07/2017 01/07/2018 Q2 2018	01/10/2017 01/10/2018 Q3 2018	01/01/2018 01/01/2019 Q4 2018	01/04/2018 01/04/2019 Q1 2019	01/07/2018 01/07/2019 Q2 2019
< €50m	10.2	10.2	10.3	10.1	10.1	10.0
>= €50m & < €100m	9.8	9.5	9.5	9.3	9.3	9.2
>= €100m & < €250m	10.1	10.2	10.1	9.9	10.3	10.2
>= €250m & < €500m	11.0	11.4	11.4	11.2	11.6	10.8
>= €500m & < €1bn	10.7	10.2	10.7	11.4	12.4	12.8
>= €1bn	12.7	12.1	12.1	12.2	12.0	13.1
Europe	10.3	10.2	10.3	10.2	10.4	10.2

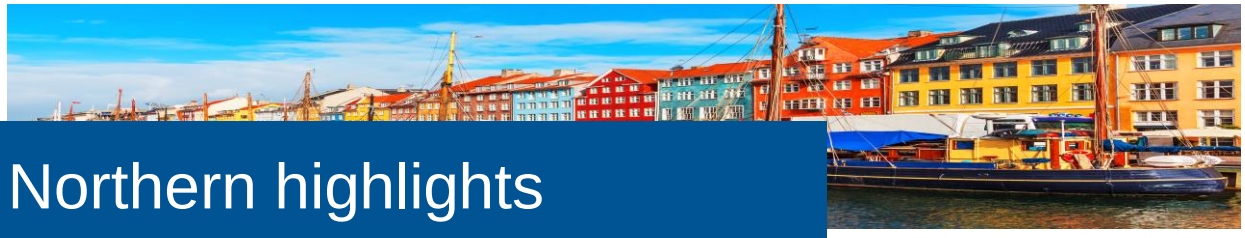


This edition of the Multiples Heatmap sees the reintroduction of valuation data tables. The Unquote research team, alongside Clearwater International's sector groups, has collected data on 4,036 private equity deals announced across Europe between 1st January 2014 and 30th June 2019.

The Multiples Heatmap publication reports averages of multiples in the last 12 months for each quarter per region, sector and deal size. The aim is to help the private equity community understand the trends in valuation over time and offer insight into the clustering of deal valuations specific to European regions, industries and deal sizes

Deals in the €500m-€1bn range saw the highest average LTM multiple.

Highest concentration of deal multiples seen in the €500m-€1bn range, and the greatest spread of multiples on sub €50m deal size range.



Northern highlights

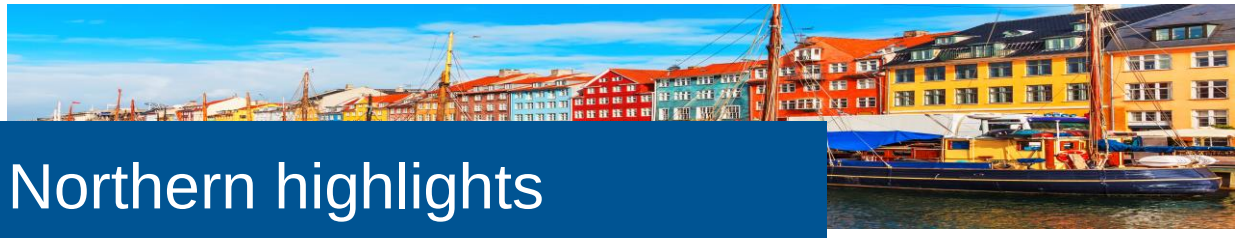
The Nordic region has seen record levels of capital deployment from international PE firms this year, but creating a strong angle through specialisation is imperative to compete with the local players says Clearwater International Denmark Managing Partner John Jensen.

The Nordic region retained its position as the most expensive place in Europe for private equity firms to buy companies in the second quarter of 2019. This is perhaps unsurprising given that the UK and Eire, which has historically challenged the region for this title, is still in the midst of an unfolding economic and political crisis, or in the words of Clearwater International Denmark's John Jensen: "In general, higher pricing in the Nordics is due to the more stable macro environment that we have in this area of Europe. For instance, we don't have the same political uncertainty that the UK has around Brexit and so far we haven't seen a large impact from the US / China trade war."

This stability has attracted capital from the rest of Europe, despite the high pricing, as PE firms rush to deploy their mounting arsenals of dry powder into high-quality assets. "Our processes are much broader now," says Jensen. "We will consider all relevant Scandinavian PE, but also all relevant UK, German and Benelux-based PE because we know they have a mandate to invest outside of their core regions."

As Unquote previously reported, private equity firms headquartered outside the Nordic countries completed a record 25% of the region's private-equity-backed buy-outs in 2018, according to Norwegian fund-of-funds Argentum's annual report The State of Nordic Private Equity.

These findings were mirrored in Unquote Data, which showed that the largest group of these investors were headquartered in the UK, including Apax Partners, Cinven, HgCapital and Terra Firma. North American buy-out firms were the next most active, with Abry Partners, OpenGate Capital and TA Associates among the GPs completing deals.



Northern highlights

Foreign experts

Given the importance of a local presence in these markets, this development is somewhat surprising. However, as the names on that list of non-Nordic managers show, sector-focused funds have an advantage that transcends national boundaries. “One trend we’ve noticed is that most of the new entrants are sector-focused,” says Jensen, “For example, we advised Hg on the acquisition of IT Relation and L Catterton on the acquisition of the Danish fashion brand Ganni.”

Hg is the largest software-focused private equity firm in Europe and as Hg partner Matthew Brockman highlighted at last year’s British Venture Capital Association summit, if its portfolio was a single entity it would be the third largest software company in Europe, with €4.2bn in revenues and 20% growth. L Catterton is equally one of the world’s leading consumer brand investors, counting the Build-A-Bear Workshop and sportswear retailer Gant amongst its historical successes.

Clearwater assisted these firms in winning out over local players by emphasising these achievements. “If you have a sector focus, you can have an edge over the local funds because you have a strong narrative and track record in this sector from other countries,” Jensen explains. However, he adds that founders may still decide to choose a local team, “because they want a partner for many years with a presence in the region.”

Invading neighbours

However, external PE funds are not the only new entrants in Nordic (and specifically Danish) PE. Jensen says that Swedish PE’s success has meant that its GPs have rapidly branched out into neighbouring countries. “Almost all Swedish PE funds have scaled up their local team in Denmark in recent years, including firms like Adelis, Valedo and IK,” says Jensen. “There has been some movement the other way, with Axcel and Polaris setting up smaller teams outside of Denmark, but in general the trend is Swedish funds expanding out of Sweden and into other Nordic countries.”

One thing all these investors have in common is that growth is still at the top of their agenda. “Despite growing concerns about the end of the business cycle and the impact of a US / China trade war, we are optimistic heading into H2,” says Jensen. “If things remain stable on the macro side then the next 6-12 months look pretty good.”

> **“If you have a sector focus, you can have an edge over the local funds because you have a strong narrative and track record in this sector from other countries.”**

John Jensen
Managing Partner - Denmark

Oscar Geen
News Editor, Unquote

Industrials insights

Dealflow in the industrials space is cooling, but pricing remains robust due to a flight to quality. Constantine Biller, International Head of Industrials and Chemicals at Clearwater International, talks to Unquote about trends in one of Europe's core sectors.

The pace of private equity-backed buy-outs has slowed in the second quarter of 2019, according to figures from Unquote Data, with volumes being hit especially hard in Europe's powerhouse markets of the UK, France and Germany. And this appears to be reflected in the activity levels seen in the industrials & chemicals sectors. Until now, the impact of Brexit on the private equity market has been much discussed, but scarcely observed - it seems that this might now be changing.

According to Constantine Biller, Partner and International Head of Industrials & Chemicals at Clearwater International: "It has taken some time, but we think that the industrials sector is finally being impacted by Brexit. There are lots of issues that will need to be dealt with as part of the exit process and therefore M&A activity is not necessarily at the top of peoples' priorities."

However, the impact of Brexit on the flow of deal processes is perhaps being mitigated by other factors, most notably the pressure felt by cash-rich corporates and private equity sponsors alike to deploy capital.

Prices buoyed by focus on quality

Given the 'old economy' nature of many businesses in the industrials sector, it is reasonable to assume that average pricing would typically fall below many other industry groups; however, the Multiples Heatmap data shows that multiples actually remain robust in the sector, at 9.5x in the 12 months to the end of Q2 2019. A focus among buyers on premium assets is the main driver here, as Biller explains: "The transactions completing now tend to involve the higher quality assets, rather than the smaller traditional businesses; for these high-quality businesses, competition is driving the pricing."

In many cases in this area, the quality element is strongly associated with progress made by integrating modern, 'disruptive' technologies into more traditional manufacturing or industrial businesses. "There is undoubtedly very strong appetite for assets that have moved with the times. Companies that have made progress within the digitalisation of manufacturing – the 'Internet of Things (IoT)' - are highly appealing," says Biller.

Other similar draws, especially in the automotive sector, are developments in electrification and connectivity. A high-quality manufacturing operation now is one where its own processes are heavily automated. Automation brings huge efficiencies and greater connectivity means that production activities are both more responsive to customer demand and better-linked with supply chains. "Companies that have not made these kinds of advances are going to be a lot less attractive to prospective buyers: it can take years and huge investment to put them in place, which effectively rules out most traditional private equity buyers."

> **"There is undoubtedly very strong appetite for assets that have moved with the times. Companies that have made progress within the digitalisation of manufacturing – the 'Internet of Things (IoT)' - are highly appealing."**

Constantine Biller
Partner and International Head of Industrials & Chemicals

Julian Longhurst
Head of Data & Research, Unquote

Industrials insights

Niche private equity strategies

While the core private equity sponsors are more likely to target the premium assets in the sector, creating highly competitive acquisition processes, there is a growing number of more specialist financial bidders, which are targeting more complex industrials deals in search of more attractive entry multiples. The highly sector-focused approach of family office or balance sheet investors such as Rubicon Partners and Germany's Aurelius Group is increasingly visible. "Some of the more specialist investors are better set up to seek out the more difficult deals such as carve-outs or distress situations," says Biller. "They are often long-term players, without the constraints of the shorter exit horizons of their traditional counterparts, and they are well-placed to deal with complex carve-outs or businesses facing issues – for instance, the slow adoption of digitalisation."

Conservative vendors

Another area in which the more specialist sector-led and long-term approach may pay dividends is in combating cultural issues. A theme that is common across the industrials space is that owner/managers coming from engineering or manufacturing backgrounds seem inherently more conservative than their counterparts in other sectors when it comes to selling their businesses and M&A in general. As Biller explains: "They want their businesses to go to exactly the right owner and they want new owners that will guarantee the ongoing investment into and development of their business. It is very possible that traditional private equity investors suffer from a perception among these industrial entrepreneurs that they don't come with the right engineering pedigree."

Sector hot-spots in Europe

- **Germany**: automotive, automation, materials handling
- **France**: aerospace, packaging
- **Spain**: speciality chemicals
- **Italy**: specialist manufacturing, automotive
- **UK**: building products, engineering services, engineered products

CLEARWATER INTERNATIONAL

Selected Clearwater International private equity transactions from the last quarter

HORIZON CAPITAL raised debt finance from Ca Corporate Solutions to support the acquisition of EES for Vehicles

Acquisition finance
Undisclosed

Palatine private equity MBO of SMP Partners

Acquisition finance
Undisclosed

FRANCE THERMES acquired COMPAGNIE DE VICHY

Buy-side
Undisclosed

Freshstream acquired a majority stake in Away Resorts from LDC

Buy-side
Undisclosed

Baird Capital BAIRD sold Clearwater to MARLOWE

Sell-side
Undisclosed

LIVINGBRIDGE sold KIRONA Intelligent Mobile Solutions to advanced

Sell-side
Undisclosed

CERENICIMO shareholders sold their stake to BLACKFIN CAPITAL PARTNERS

Sell-side
Undisclosed

idé pro received investment from BLUE EQUITY

Sell-side
Undisclosed

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

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