CLEARWATER INTERNATIONAL

Clearview

Q4 2018

Multiples Heatmap

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

Inside:

- Decline in multiples across Europe
- Focus on Financial Services
- Overview of the French market

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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' understanding of the drivers behind value trends across regions and sectors, leading to good investment opportunities.

The average valuation for PE backed transactions dropped by over 10% in the quarter and there is also a 5% decline when compared to the same quarter in 2017.

For the first time since Q3 2016, the UK and Ireland region was the hottest in terms of valuation with the average multiple for the quarter also being the highest in the region since Q1 2015. Multiples in the region grew steadily throughout 2018, increasing by 11%.

The Southern region remained flat in Q4 2018, but multiples have reduced by 8% when compared to the same quarter in 2017.

Pricing reductions were seen in all regions except for the UK and Ireland and Southern Europe. The DACH region dropped by 30% in Q4 2018, falling from the joint hottest region in the previous quarter to the sixth hottest in Q4 2018. Multiples in both Central and Eastern Europe and the Nordic region dropped 23% in Q3 2018 with Benelux and France seeing smaller reductions.

Once again, the TMT sector saw the richest pricing, despite a reduction of 15% in the average multiple following the 8% decrease seen in the previous quarter. The drop in Q4 2018 broadly takes the average multiple back to the level seen in the same quarter in 2017.

The only sector to see an increase in multiple in Q4 2018 was Financial Services, which saw an increase of 8% taking the average multiple to its highest since Q4 2015.

The largest volatility in pricing was seen in the Industrials and Chemicals sector with a 13% decline in the quarter taking the average multiple in the sector to its lowest level for two and a half years. Smaller drops in average multiple were seen across Business Services, Consumer, Food and Beverage and Healthcare.

In terms of deal size and for the third quarter in a row, the lowest multiples were seen in the €50-250m deal range with a 2% decrease in average multiple at the upper end of the range and a more volatile decrease of 13% at the lower end of the range.

Deals over €500m continued to represent the highest in terms of multiple with an increase of 7% and 20% when compared to Q3 2018 and Q4 2017 respectively.

Deals valued in the €250-500m range saw the greatest volatility with a drop of 18% seen in the quarter with a smaller decrease of 10% seen in sub €50m transactions.

In this quarter, the Multiples Heatmap focuses on trends seen in the French region and the Financial Services sector.

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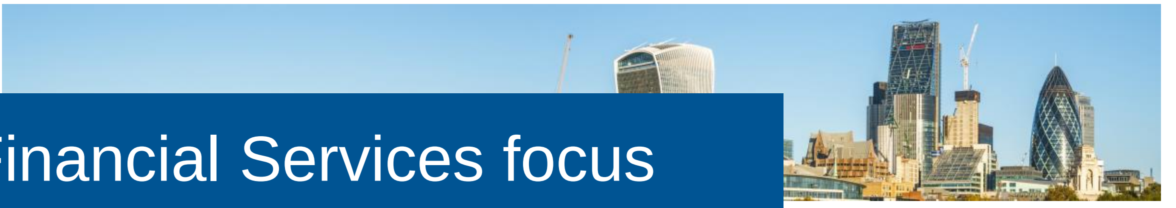


Financial Services focus

Financial sector dealflow and multiples remain buoyant. Clearwater International's James Barraclough speaks to Unquote about the opportunities driving the market.

Evolving market dynamics, driven by technological innovation, regulation and changing consumer habits, are creating a raft of opportunities in the financial services sector.

MiFID II, Basel III, AIFMD, EMIR and RDR are all part of the alphabet soup of new regulations financial services firms have had to contend with over the decade since the financial crisis, with technology vital to meeting the challenge.

"There is disruptive innovation coming in. A lot of it is about improving business models and responding to regulatory challenges, which are only going in one direction," says Barraclough.

But it is not just regulation. The relationship between financial services providers and their customers has been fundamentally changing, with customers becoming less loyal and shopping around.

Barraclough adds: "From the consumer's point of view, trust relationships have changed. It is no longer the case that you go to the bank that you have banked with since you were a teenager - people are more interested in switching and more accepting of digital channels. It has been a massive 10-year tsunami of change that has created lots of opportunities."

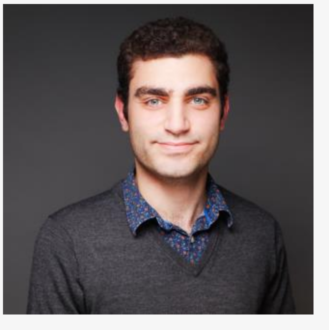
The response to many of the challenges thrown up by the evolving market environment has been for financial companies to seek scale. One of the best ways of getting new customers on board and expanding product lines has proven to be through acquisitions.

"Once you have got a back office, and compliance and marketing systems established, you can scale up rapidly. What you need is more clients, so firms start buying other business and there has been massive consolidation," Barraclough says.

This is where technology helps, with a number of applications in financial services such as streamlining compliance processes, client data collection and handling, and marketing. For example, better use of data should enable more targeted marketing for cross-selling, which reduces the cost of consumer acquisition – a major theme driving acquisition sprees and tech innovations.

James Barraclough
Partner and International Head of Financial Services

Christopher Papadopoullos
Research Editor, Unquote



Financial Services focus

Insurance boom

Evolving technical and market dynamics are compounded by the fact financial services is a robust sector. Most people and businesses require some kind of insurance, corporates have legal requirements for pension provision, and the declining popularity of defined-benefit pension schemes and more self-employment means vanilla products no longer suit the needs of many households.

M&A in the sector has been buoyant, especially acquisitions by PE houses. The level of competition for quality assets can be seen by the strong multiples being secured by vendors. One major sector has been insurance, where 15 transactions were completed across Europe last year, more than any other financial services sub-sector.

“Insurance and wealth management are behind the curve in terms of their back office efficiency. That’s why they are really interested in technical innovation that streamlines back office processes,” adds Barraclough.

Added to this, there are numerous small and medium-sized insurance brokers in the UK and dotted across the continent, providing plenty of potential targets.

In wealth management, changing fee structures and greater transparency have encouraged clients to shop around, putting downward pressure on fees and commissions. Low interest rates have also contributed to financial companies’ impetus to seek scale. Advisers are also spreading into wealth management as competition chips away at fees.

Financial services is likely to remain an M&A “hot spot” for the foreseeable future, given the continued interest of not only private equity but also significant trade buyers. There remain significant opportunities for innovative, technology enabled businesses to gain market share and create shareholder returns.

Internationalisation and the continued creep of regulation are likely to spur on yet more innovation and opportunity for investors and acquirers. Against this backdrop, it is highly likely prices for quality assets will remain high.

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France: stiff competition for deals

Despite reaching a post-crisis high in 2018, the buy-out market in France is not without its headwinds and 2019 is likely to remain highly competitive, with robust multiples still in evidence. Thomas Gaucher, Managing Partner and a founder of Clearwater International France speaks to Unquote about the prevailing conditions in the market.

Multiples across Europe are at a well-documented high point, especially for larger assets. How is pricing trending in the French market and what are the key drivers behind this?

Multiples are certainly high by historical standards – especially for the 'premium' assets. As it is in some other markets, the main drivers behind this trend are the very substantial reserves of dry powder available, both in terms of equity and debt. This has been amplified by the interest many of the larger pan-European and US investors have shown in the market, as well as the emergence of the private debt funds.

It is often difficult for sponsors to win auctions for best-in-class assets that some investors will inevitably table very high offers early-on in the process. From their point of view it can be preferable to overpay a little, but at least secure deals. Also, one could argue that overpaying for prime assets presents less of a problem than not investing at all, or paying true market value for questionable targets. At the end of the day, for many it's about deploying capital safely, and in a highly competitive market this creates entry price inflation.

To what extent has local and international political risk affected the French market? Has an element of nervousness crept in?

I do not believe that the French buy-out market has experienced any specific tensions due to international political risks and specifically the on-going situation with Brexit. In fact, we have been more concerned with developments on the domestic front, with the whole situation surrounding the "gilets jaunes" protests has been the primary worry. These have had a material impact on Q4 GDP growth, especially for consumer-related businesses. However, I think that the LBO market is unlikely to be damaged in any detrimental way because financial liquidity has not been affected and remains strong.

Where we perhaps see more of an issue looking ahead is in the pipeline of high-quality assets coming to market. 2018 was such a strong year and it is quite possible that many trade and financial sellers were encouraged to sell their most attractive assets to take advantage of the high multiples they were commanding. This is especially true of the sponsors that were looking to boost returns ahead of major new fundraising efforts. As a result, we may find that the flow of buy-out opportunities feeding into the pipeline in the first few months of 2019 may be less strong than in it was in the first half of 2018.

Thomas Gaucher
Managing Partner, France

Julian Longhurst
Head of Data & Research, Unquote

France: stiff competition for deals

From a sector point of view, financial services and healthcare commanded robust multiples in Q4. Does this match your experiences on the ground? Are there any other industrial 'hotspots' in terms of assets changing hands?

There is no doubt that the financial services and healthcare sectors have produced some deals completed at very high multiples in recent times, but they are not alone. The French market has seen significant activity in a number of other key sectors including leisure (particularly the travel sub sector) and industrials. Companies which are employing disruptive business models, such as online real estate brokers, are also attractive. As mentioned earlier, the best-in-class businesses will command strong multiples almost irrespective of the sector in which they operate.

On the other side of the equation, where are financial sponsors looking for more reasonably priced assets and what sort of strategies are they employing?

Picking up assets at lower multiples is less about the sector and more about the approach of the investor. Those prepared to accept a higher level of transaction complexity and business risk are more likely to source deals off-market or pick up assets at lower multiples. Similarly, strategies that seek out elements of distress – ranging from 'light turnaround' to full receivership – are relatively common. Meanwhile, other investors might target companies that have a complex future or past equity story, management problems, or that have questionable regulatory issues, etc.

What is certain is that high quality assets being sold at reasonable prices vanished from the French market last year.

Are financial sponsors out-gunning trade buyers more than one would expect? If so, what are the key factors behind this?

Yes, we have seen sponsors pricing more aggressively than trade buyers, despite lacking the sort of industrial synergies that trade entities often bring. Again, this is to do with the need to deploy some of the dry powder that is available.

What's more, we would tend to think that this will continue at least in the short term, as listed trade buyers in particular have suffered from the falling stock markets in Q4 2018 - lower market cap valuation multiples make it all the more difficult to match aggressive sponsor valuations.

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Recent Clearwater International Private Equity Transactions

Vacanceselect sold a portfolio of 7 accommodation sites to SwissLife Asset Managers

Sell-side

€113m

GPV backed by schouw+co acquired CCS Group

Buy-side

Undisclosed

netgroup. sold to SENTIA backed by WATERLAND PRIVATE EQUITY INVESTMENTS

Sell-side

Undisclosed

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

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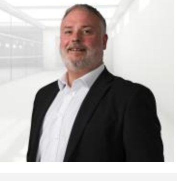

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