CLEARWATER INTERNATIONAL

Clearview

Q1 2020

Q1 2020 Multiples Heatmap

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

Inside:

- Multiples stable as effects of COVID-19 not yet seen in reporting
- DACH market overview
- Business services sector focus

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An Acuris company

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.

Q1 2020 began as an active quarter but as COVID-19 entered Europe in the latter stages of Q1 and subsequently provoked lockdowns in Europe during March, dealmaking came to a halt. However, as an active beginning to 2020, Q1 PE multiples reported some stability when compared to previous quarters with the effects of COVID-19 not yet reflected in reporting.

In Q1 2020, average multiples paid in PE-backed transactions throughout Europe remained broadly flat when compared with the previous quarter and the same quarter in 2019.

For the third quarter in a row, the Nordic region saw the highest average multiples despite a 3% reduction versus the previous quarter and the same quarter in 2019. Despite the reductions, the average valuation for the quarter was still well in excess of 10x.

For the second quarter in a row, the DACH region saw the largest increase in average valuations, making it the second hottest region in Europe, up from fourth in the previous quarter. Valuations were up by over 6% on the previous quarter in 2019 and up by nearly 3% on Q4 2019.

The UK and the Southern region were the only other regions to see growth in valuations when compared with the previous quarter, with moderate increases of around 1%. Average multiples in the UK and the Southern region have remained consistent for the last six quarters with averages varying between 10-11x and 9-10x in the respective regions.

There was a further sharp decline in valuation in Central and Eastern Europe in the quarter, with a decline of nearly 2% when compared to the previous quarter and nearly 15% against the same quarter in 2019. For the fourth quarter in a row, the region delivered the lowest average valuations.

France and Benelux also saw drops in valuation in the quarter with more modest drops of 1%. However, for the sixth quarter in a row, average valuations in France were still in excess of 10x. Similarly, for the sixth quarter in a row, average multiples in the Benelux region were between 9-10x.

In Q1 2020, the largest quarter on quarter increase in average valuations was seen in industrials and chemicals, with an increase of 4% on the previous quarter and 5% when compared with the same quarter in 2019. For the first time in six quarters, average multiples in the sector exceeded 10x.

For the second quarter in a row, average multiples were richest in the TMT sector, despite a 1% decrease in valuations compared to the preceding quarter and 2% against the same quarter in 2019.

European Overview

In the previous quarter, the financial services sector was not the hottest in terms of valuation for the first time since Q4 2018 and in this quarter, the sector was the second richest. Financial services saw a further decline in average valuations of over 7% and it was the lowest average the sector had seen in over six quarters.

Business services saw growth of over 2% in average multiples for the quarter, despite being down nearly 1% on the same quarter in 2019. Valuations in the quarter were, in fact, the highest they have been since Q1 2019.

The consumer sector saw the lowest valuations for six quarters and dropped below 10x for the first time since Q1 2019. Food and beverage also saw declines when compared with Q4 2019 and the same period in 2019.

Healthcare also saw further declines in valuation, with its lowest average since Q4 2018 but still with averages well above 10x.

In terms of deal size, and for the third quarter in a row, the richest valuations were seen in transactions >€1bn, also being up over 6% on the previous quarter and the highest in over six quarters.

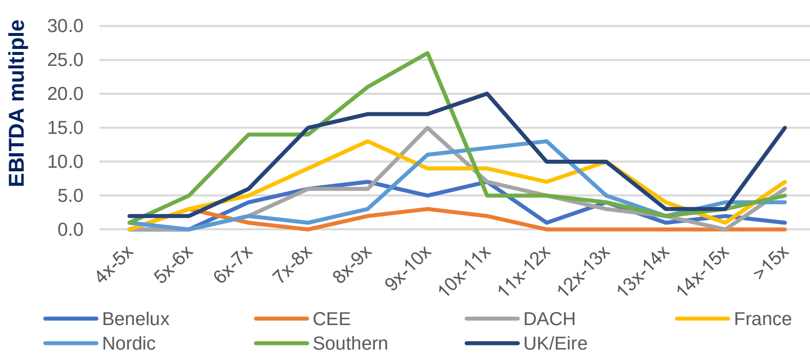
For the fourth quarter in a row, transactions between €500m-€1bn endured the second hottest valuations, despite being nearly 8% down on the previous quarter. Valuations in the sector were the lowest since Q4 2018.

Deals in the €250m-€500m range showed decreasing valuations of 1% and 5% when compared with the previous quarter and same quarter in 2019 respectively.

Modest quarter on quarter increases were seen in all sub €250m categories, despite the €50m-€100m range seeing the lowest multiples of any group in the quarter.

In this quarter, the Multiples Heatmap focuses on trends seen in the DACH region and the business services sector now the effects of COVID-19 are coming to the fore.

LTM mutiples distribution by region



Averages over last twelve months

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Start	01/01/2018	01/04/2018	01/07/2018	01/10/2018	01/01/2019	01/04/2019
End	01/01/2019	01/04/2019	01/07/2019	01/10/2019	01/01/2020	01/04/2020
Benelux	9.6	9.6	9.3	9.4	9.9	9.8
CEE	9.3	9.8	9.0	9.0	8.5	8.3
DACH	10.1	10.2	9.9	9.9	10.5	10.8
France	10.3	10.5	10.3	10.3	10.6	10.4
Nordic	11.0	11.5	11.2	11.0	11.5	11.2
Southern	9.2	9.3	9.4	9.6	9.5	9.5
UK/Eire	10.5	10.9	10.9	10.8	10.7	10.8
Europe	10.2	10.4	10.2	10.2	10.3	10.3

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

“Business services saw growth of over 2% in average multiples for the quarter, despite being down nearly 1% on the same quarter in 2019. Valuations in the quarter were, in fact, the highest they have been since Q1 2019.”

DACH highlights

2019 was a record year for deal value in the DACH market and 2020 was off to another strong start before the coronavirus hit. Nevertheless, copious amounts of dry powder in the region mean that sponsors are still looking to make deals and this liquidity may prevent a significant fall in multiples, say Clearwater managing partners Axel Oltmann and Heinrich Kerstien.

Technology and industrials deals dominated dealflow in the DACH region in Q1 2020 with the healthcare sector also favoured by GPs, demonstrated by Deutsche Private Equity selling its stake in Pharmazell to Bridgepoint in February. However, overall deal volume fell in Q1.

The industrials sector has long been a staple of Germany's economy and has historically drawn interest from investors in the region, too, with the largest ever private equity deal in the DACH region and the industrials sector being announced in February, when a consortium of Advent, Cinven and RAG-Stiftung bought Thyssenkrupp Elevator in a deal valued at approximately €17.2bn. However, the sponsors are reportedly seeking additional equity backers to reduce their own risk exposure to the asset and the sector, indicating a shift in the view of the sector from Q1 to when the coronavirus crisis hit.

Certain industrials sub-sectors are ones that GPs would approach with caution and might be increasingly viewed as coming with a higher risk. "We saw lower multiples for machinery and engineering pre-coronavirus. These sectors are even more affected now," says Oltmann. "The time gap to recover after the coronavirus effect will be longer for the companies whose multiples were low before the crisis."

As Oltmann points out, even prior to the coronavirus crisis, there was already a significant spread of multiples across cyclical and non-cyclical hot sectors. "The impact of coronavirus might increase the spread of multiples between sectors. I would expect that healthcare or SaaS businesses, for example, will be sold at basically the same multiples as before."

The hot sectors of technology and software have become obvious non-cyclical focuses for investors since the coronavirus crisis began to take hold and are likely to bounce back more quickly than others, or may not have seen any negative impact from the coronavirus at all. Many players in the DACH market had been moving towards these sectors long before the coronavirus crisis. As Oltmann explains: "Over the last years we certainly saw a tendency towards healthcare and technology businesses. In principle, private equity was closed to the automotive sector and focused on the smart part of industry competitors. Some sponsors have benefited from this shift towards less cyclical markets, but I would doubt that there are any larger funds with no impact on their portfolios. People saw things developing towards a recession, but not in this manner."

Beyond distressed M&A for businesses that are struggling with liquidity problems, sellers in the current market are generally those who believe that they have resilient and strong businesses, and they are unlikely to accept significant multiple decreases. Nevertheless, the coronavirus has naturally had an impact on dealmaking and dealflow in the region, says Oltmann. "Plain vanilla M&A for the sell-side is only happening for really robust sectors with no clearly measurable coronavirus impact, and otherwise most deals are on hold," he says. "For deals in an early stage or premarketing there was an immediate hit and most of them were shelved. But we also see a number of deals in the market that were already in the due diligence phase and we are trying to make these happen and to find a bridge where we can balance the potential risk of corona hits: key words are earn outs and vendor loans, tools to bridge the gaps."

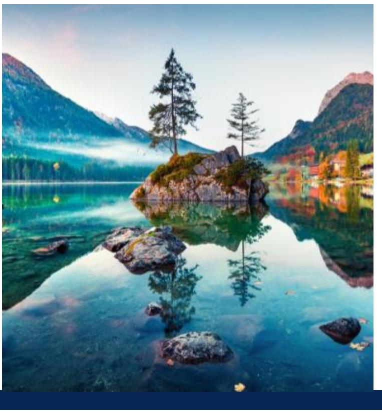
> **"The impact of coronavirus might increase the spread of multiples between sectors. I would expect that healthcare or SaaS businesses, for example, will be sold at basically the same multiples as before."**

DACH highlights

Kerstien suggests that sponsors are likely to double down on their existing investment strategies to weather the storm, particularly those with a specialised sector focus. "As a sponsor, I would follow my investment thesis at this time. The worse the market environment gets, the more you focus on what you know, rather than venturing into something that you have not done before. The investment focus will grow narrower."

Oltmann concurs and does not expect classical PE investors to target struggling sectors where multiples might be lower or turn to distressed investing. "I doubt that normal PE funds would go for sectors that are in serious trouble claiming that they could be a good buy – they will rather be looking for robust businesses where they can still buy something for a good price."

In an uncertain environment, the sheer quantity of capital that GPs are waiting to deploy may help bolster multiples. "A large amount of money is competing for fewer targets in the market," says Oltmann. "We might expect prices to come down due to financing restrictions and the coronavirus – but the counterargument is that sponsors are still open for business with significant funds to spend."



Kerstien concurs: "Liquidity hinders pricing from coming down significantly; at the moment, we don't see assets valued at 10x EBITDA going down to 6x or 4x, for example. If there is an equity story to tell and lots of capital available, there is no real reason for multiples to go down, other than financing getting more expensive."

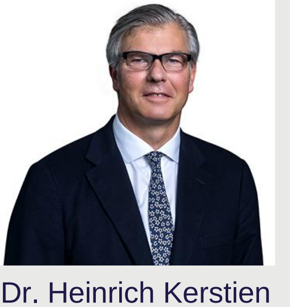
Buy-side strategies have built on the pre-existing trend in the market of buy and build, but they are currently less popular with banks, an issue that is set to persist both during and beyond the coronavirus crisis. Kerstien attests: "If you want to create a platform by buying several businesses in one go, this is more difficult to finance than it would have been previously as banks are focusing on a fully integrated management during the months of increased uncertainty." For the larger deals, the absence of underwritten bank deals is an issue, as Kerstien explains. "You are left with some unitranche lenders who can provide these debt volumes. Smaller deals are still doable. As many banks and funds are focusing on their portfolio deals, interested financing parties may include local providers, specialised lenders or market participants who have not been that active before."

The financing market, while currently challenging to navigate, is by no means closed for business, however which means that deals in hot sectors can still get done. " In attractive sectors, for robust businesses, you can still find financing." says Oltmann.

Ultimately, the full impact on pricing and multiples remains to be seen, says Oltmann, although dry powder may be the determining factor in the coming months.

"I doubt that the coronavirus will have a balancing impact that will lead to an overall decrease in multiple levels – it depends on how fast refinancing will be back when financing sources are there and at what prices, and how strong the pressure is to invest. The liquidity in the market is still so dominant and you still pay good prices for good businesses."

Axel Oltmann
Managing Partner, Germany



Dr. Heinrich Kerstien
Managing Partner, Germany

Harriet Matthews
DACH Reporter, Unquote

Business Services Insights

After a strong start to the year for the business services sector, the rapid unfolding of the global Coronavirus pandemic has radically changed the rules of the game – at least for the short term. Clearwater's Partner Marcus Archer and Director Mark Maunsell, share their views on the current prospects for the sector.

How has dealflow altered over the course of the first few months of 2020 and what are the prospects looking forward?

For Clearwater the first quarter – right through to the end of March - was a very busy period, not just for business services but across the business. In areas like education and training or recruitment and consultancy, as well as more broadly across tech-enabled services, there was a lot of activity and pricing was sustained, if not increasing. This was probably driven by more clarity surrounding the UK's political future and Brexit timings following the general election in December.

We entered Q2 with a strong pipeline of deals that were expected to come to market, but many of those processes have been hit – even for some of the more lockdown-resilient businesses like those providing remote learning, remote training and virtual assistant type services. The sheer number of workers that have been furloughed means that many businesses are being hit by the crisis because people are simply not around to hit the button on a renewal or a subscription.

Looking ahead an area where we think there will be quite a lot of dealflow is in the acquisitions or carve-outs of non-core corporate subsidiaries. Corporates across Europe are re-calibrating their M&A strategy, and as part of that they are also thinking about how they can shore up their balance sheet and continue to trade; part of that may well be to consider non-core divestments.

Within business services where do you expect to see most interest in the short to medium term?

There will be winners and losers. Some of the sectors within business services that were busy pre-lockdown won't be now and some that weren't will be. In our view there are a number of very interesting areas that should see strong activity when the lockdown eases. Healthcare recruitment, for example, is an area that will be very important in the support of the NHS through this period. It might have been an unfashionable sector pre-crisis, but now there will be a number of businesses that need equity support to finance the current demand.

The legal tech and legal services subsector is another interesting area, with businesses here seeing strong revenue growth driven by in-house legal counsels around the world who are embracing technology solutions. The test inspection certification subsector and anything that is compliance- or health and safety-related – especially remote learning will likely be an attractive area. Similarly, climate control businesses, which runs into the broader renewals and sustainability area; we think is going to be a very interesting space as the world tries to look after itself a little more in the post-lockdown era.

A final point to emphasise across the European business services area is that tech-enabled companies stand out: they don't have to be a pure-play technology proposition, but they need to be leveraging technology in some capacity, which in business services typically means the creation of some kind of operational efficiency; those businesses are often more attractive to PE because they are more scalable.

Business Services Insights

Will there be demand from, and funding available to, buyers of business services targets?

We believe the appetite and funding will be there. Compared with the aftermath of the GFC, financial sponsors are much better prepared for the current conditions, with operating partners, portfolio teams, value creation teams and digitalisation teams. As we have gone into this crisis they have reacted quickly, liaising with banks to provide liquidity and re-set covenants, as well as putting in place furlough plans. Once these GPs have worked out which of their investees will emerge well, they are likely to invest time in ramping up buy-and-build strategies, even for those that were not on that strategy before. Then you have the new funds in the market, which don't have any portfolio distractions; they are focusing about how best to deploy capital now. The current situation plays into the hands of those that have a flexible mandate and are able to participate in minority partnership investing: this is going to be a very active area in the months to come.

On the debt side, banks might be closed for new business at the moment, but they will re-open and will be keen to lend to good businesses. The difference between this crisis and the situation in 2008/9 is the strength of banks' balance sheets. In addition, the debt funds are very much open and are sitting on a lot of undeployed capital, although the bar to access this money is set quite high.

"The difference between this crisis and the situation in 2008/9 is the strength of banks' balance sheets."

Marcus Archer
International Head of Business Services

Mark Maunsell
Director, UK

Julian Longhurst
Head of Data & Research, Unquote

CLEARWATER INTERNATIONAL

Selected Clearwater International private equity transactions

MML
sold
Learning Curve Group
to
AGILITAS
Sell-side
Undisclosed

Palatine
sold to
Vernacare
to
H.I.G. Capital
Sell-side
Undisclosed

MML
invested in
Spencer Ogden
Buy-side
Undisclosed

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

Waterland Private Equity Investments
raised unitranche debt funding to support the merger and acquisition of
direktgruppe
binary
Beck et al.
Acquisition finance
Undisclosed

MUTARES
BALCKE DÜRR
sold
Balcke-Dürr Polska Sp. z o.o.
to
WALLSTEIN
Sell-side
Undisclosed

AVEDON Capital Partners
raised finance to support the acquisition of
hauck fun for kids
Acquisition finance
Undisclosed

Triton
sold
veltec Industrial Services
to
Plant Systems and Services PSS GmbH
Sell-side
Undisclosed

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

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