

Multiples Heatmap

2015 Review



The heat is on

In the second edition of the Multiples Heatmap, *unquote* and Clearwater International uncover further rises in the prices paid for private assets

unquote

 CLEARWATER
INTERNATIONAL

Market Summary

The latest *unquote*" and Clearwater International Multiples Heatmap Report neatly reflects the ever-challenging environment for private equity investors

Asset prices in Europe have continued to swell, as unfavourable buy-side supply and demand dynamics – witnessed since the second half of last year – came under further pressure with continued successful fund closes. Indeed, institutional investor demand for private equity remains enthusiastic, driven by unwavering low interest rates and a volatile stock market.

Indeed, fundraising conditions are undoubtedly in private equity's favour, evidenced by GPs throughout Europe raising larger funds in increasingly shorter amounts of time. Over the last 18 months, UK-based lower-mid-market GP Synova Capital closed its third fund on its £250m hard-cap after less than three months on the road. Meanwhile, in the mid-market, Italy-based private equity firm Investindustrial reached its €2bn hard-cap after just three months; and in the large-cap space, Advent International closed its eighth buyout vehicle on \$13bn after a six-month fundraising period.

Abundance of buyers

As cash continues to flow into all manner of private equity funds, GPs are facing burgeoning competition from cash-rich corporates and family offices looking to do more direct investments, alongside pension funds and sovereign wealth funds, both of which are also continuing to increase their co-investment and direct investment efforts. Furthermore, without the constraints of investing from a time-limited fund, the longer holding periods offered by family offices, pension funds and sovereign wealth funds are becoming seemingly more attractive to owners looking to sell assets.

To add to this, debt markets continue to be plentiful, with both traditional lenders and

Alice Murray

*Editor,
unquote"
alice.murray@unquote.com*



alternatives vying for sponsor-backed deals. Credit funds are under pressure to invest in a market with a diminishing number of available deals, meaning in some cases, credit is becoming cheaper and more borrower-friendly, enabling GPs to stretch to higher purchase prices.

Indeed, the deal slowdown has continued into the first quarter of this year, marking the third consecutive decline for European buyouts, according to figures from *unquote*" data.

This second instalment of the Multiples Heatmap Report, looks back over the changing environment of these past 12-18 months in order to determine where value can still be unearthed, and which sectors are offering best value.

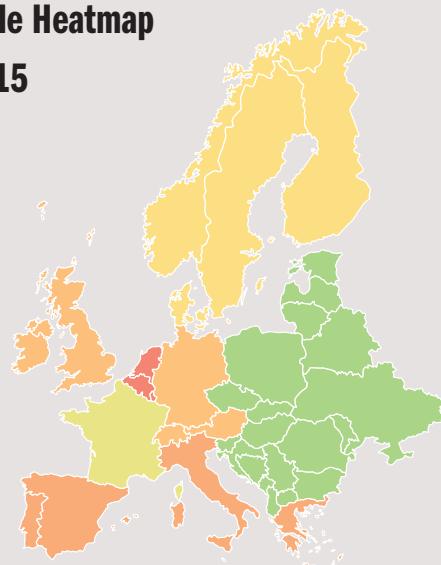
The overall aim of this partnership is to bring together a community of mid-market investors, whereby, through the sharing of information, we can more efficiently navigate the increasingly competitive markets and ensure private equity continues to deliver healthy returns for investors. ■

Multiples data breakdown

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Benelux	8.1	10.7	9.6	11.5	9.4	9.6
CEE		7.3		8.4	9.2	8.8
DACH	9.9	9.5	7.7	10.3	10.0	9.5
France	8.7	9.5	9.9	9.4	11.0	10.3
Nordic	8.0	11.0	7.9	9.9	9.8	11.1
Southern	9.8	7.0	7.6	10.8	8.8	9.1
UK/Eire	9.9	11.3	12.0	10.4	10.8	10.8

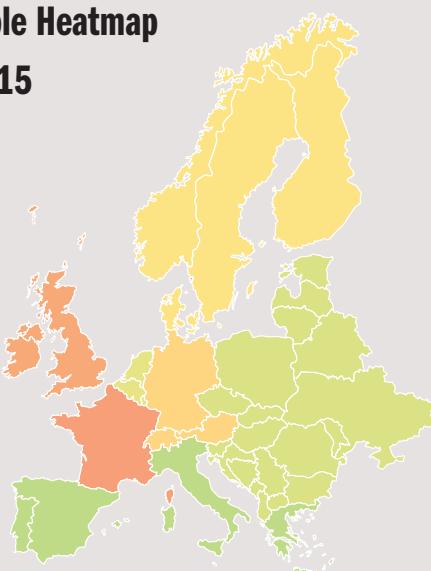
Multiple Heatmap

Q2 2015



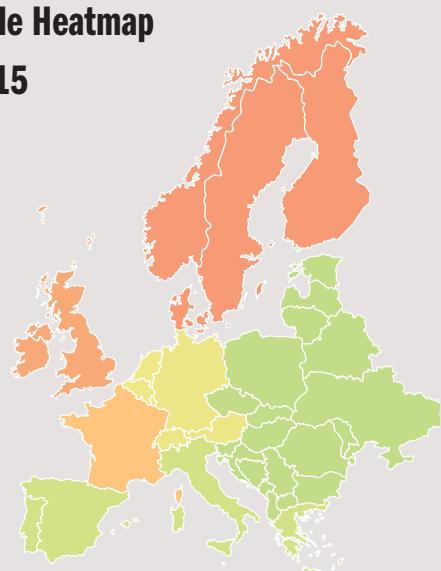
Multiple Heatmap

Q3 2015



Multiple Heatmap

Q4 2015



Methodology

The Multiples Heatmap data for this report is based on transaction data from some 365 European private-equity-backed buyouts completed between July 2014 and December 2015, and represents almost 45% of the total buyout market in that time.

The multiples calculated are based on the ratio of enterprise value (EV) to EBITDA.

Profit figures come from a variety of sources, including the lead backers, government agencies and other reputable publicly available sources, as well as from intelligence held by Clearwater International's country and sector teams.

In some cases (most notably among the smaller deals) EVs are estimated based on the best information available.

Europe's entry multiples heating up

Which regions and sectors across Europe provide good value for Private Equity investors? Clearwater International partner Miquel Marti has some answers

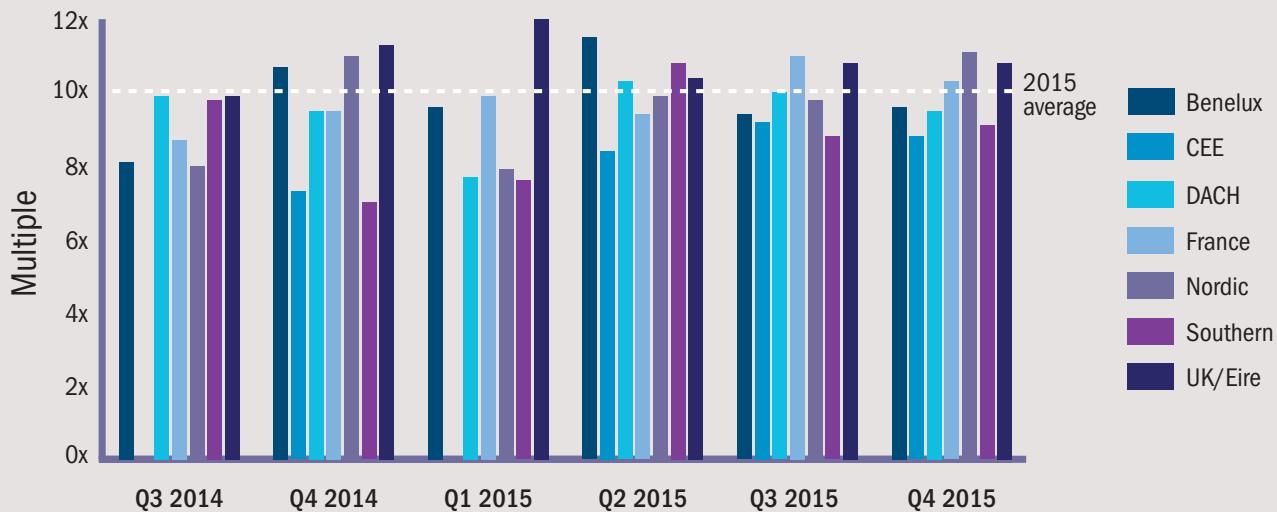


For investors looking for a strong indication of where good value can currently be found, look no further than our latest Multiples Heatmap.

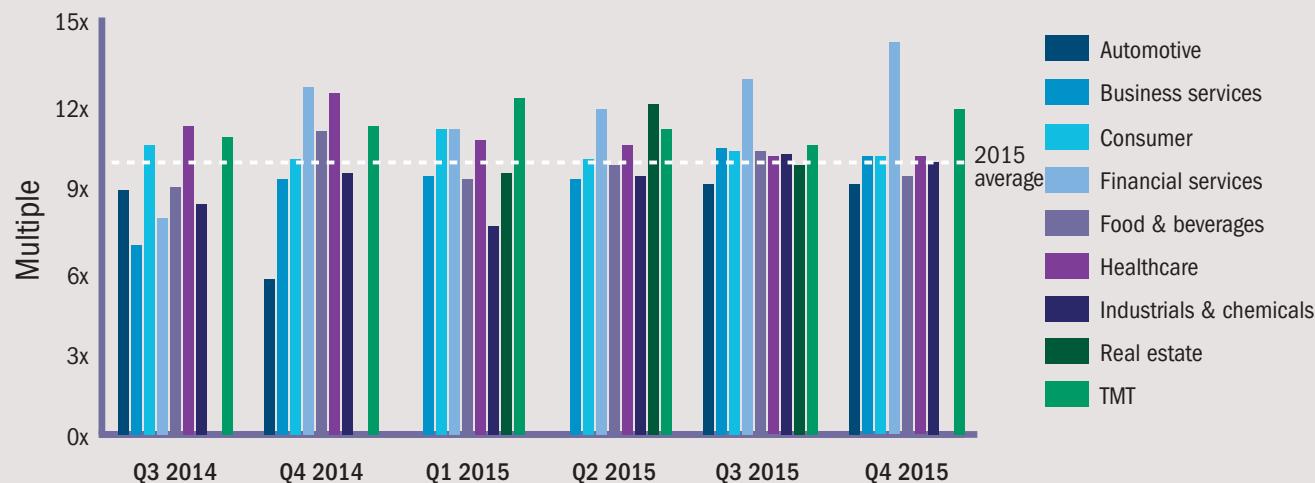
Our Heatmap analyses multiples data by sector, region and deal size to establish value trends, identifying where multiples are highest across regions and sectors, and the direction of those multiples over time.

Since the launch of our first Heatmap last year we have improved both the comprehensiveness and quality of our survey. Based on research carried out by our own sector groups and European offices, together with research from *unquote*, we have now collected data on 830 deals across Europe, of which we have analysed the multiples for some 365 transactions between July 2014 and December 2015.

Quarterly average multiples by region



Quarterly average multiples by sector



Regional breakdown

The UK/Eire region continues to see considerably higher average multiples over the entire period with double-digit multiples across all sectors.

It's the central and eastern Europe (CEE) and southern Europe regions that have continued to offer the best value opportunities, though they are now heating up too, as evidenced by the southern Europe technology, media and telecommunications (TMT) sector, which has been the hottest with an average of 15.1x, (although this result was skewed by a highly priced Italian deal involving a price comparison website).

Average multiples across the Nordic countries, France, DACH and Benelux are all clustered between 9.6-9.9x with good value opportunities in business services, and industrials & chemicals in DACH, and in business services in France.

Our analysis of quarterly multiples by region for all sectors shows that multiples across western Europe have continued to range between 9-11x, with values across Europe as a whole clustering around an average of 10.1x for 2015.

The Nordic region saw a 1.3 point surge in average multiples in the final quarter of 2015 to 11.1x, while the UK/Eire was stable at 10.8x. In the

DACH region, pricing has realigned with the 2015 average of 9.6x following double-digit multiples in Q2 and Q3. Meanwhile, Benelux saw prices correct towards a long-term average following a Q2 surge, while southern Europe has seen multiples stabilise at their 2015 average of 9.1x.

Total deal volumes over the period have been significantly higher in UK/Eire than the rest of Europe with approximately 250 transactions, though activity levels in France have been rapidly catching up throughout 2015. The volume of deals in the southern Europe and Nordic regions have been steady across the period with a significant pick up being seen in Q4 2015, while transaction volume in the CEE region has been consistently low but stable. Benelux activity is also now at a steady level following a peak in Q3 2014.

Hot sectors

TMT and financial services continue to be the hottest sectors across all regions, with the exception of the Nordic financial services sector, which represents a good value opportunity for PE funds. In Q4 2015, average multiples in financial services surged and moved even further away from the long term average.

The financial services sector is particularly hot

Multiples Heatmap

in the UK, France and Benelux, driven by new regulations in the insurance brokerage and wealth management areas, which are squeezing out smaller players and resulting in wide-scale market consolidation.

The TMT sector average multiple also rebounded in Q4 2015 back above the 2015 average.

The business services sector offers great value opportunities in the Benelux, CEE and France regions, while southern Europe, DACH and Nordic-based business services companies also transacted below the 9.9x European multiples average.

The industrials & chemicals sector offers good value opportunities in the DACH and southern Europe regions, while consumer sector multiples are closely grouped around the European average in France, Nordic and southern regions, with prices slightly inflated in UK/Eire and DACH. There are attractive value opportunities in consumer for investors in the Benelux and CEE regions.

The consumer sector also displayed the lowest variance in multiples across the last six quarters.

The healthcare market continues to be hot in France, with high multiples also being seen in the UK/Eire and DACH. Meanwhile real estate

continues to be very hot in UK/Eire, particularly in London and the south east of England, but we are also seeing high valuations in France and good investment opportunities in southern Europe.

The automotive sector continues to represent best value, with the food & beverage and industrials & chemicals markets also seeing single-digit multiples.

Rush of consumer deals

In terms of deal volumes, the consumer and industrials & chemicals sectors made up the biggest proportion of deals across all regions with a particularly high level of consumer deals in UK/Eire. Similarly, financial services deal volumes were considerably higher in the UK/Eire than in other regions.

The business services market has also seen high levels of activity in UK/Eire, as well as in the Nordic and French regions.

TMT also represented a significant part of European deal volumes, though a lower proportion of activity in the CEE and Southern regions.

If we look at quarterly deal volumes by sector, again it is the consumer and industrials & chemicals

Quarterly average multiples by size range



markets that make up a significant proportion of total deal volumes followed by TMT and business services.

Deal size

As expected, our tracking of quarterly average multiples by deal size shows that larger transactions are consistently trading at higher multiples than smaller deals. The low multiples we saw for €50-250m transactions in Q1 2015 has now corrected.

In the final quarter of 2015, deals under €100m saw multiples consistent with long-term averages and offer the best value opportunities. Steady price inflation has been seen in the €100-250m range, largely driven by high levels of competition between mid-market PE funds.

Deals over €500m continue to benefit from scale premiums and are the most expensive. Indeed, deals valued between €500m-1bn have seen a 0.8 point increase in average multiples paid in the last quarter of 2015, moving above the longer term average.

Deal volumes also decrease as size range increases with sub-€50m deals continuing to represent the bulk of deal activity across the period

of our research. The percentage of deals in the €50-500m range has dropped significantly since Q2 2015, while €500m-1bn deals have seen stable volumes after particularly low activity levels in Q3 2014.

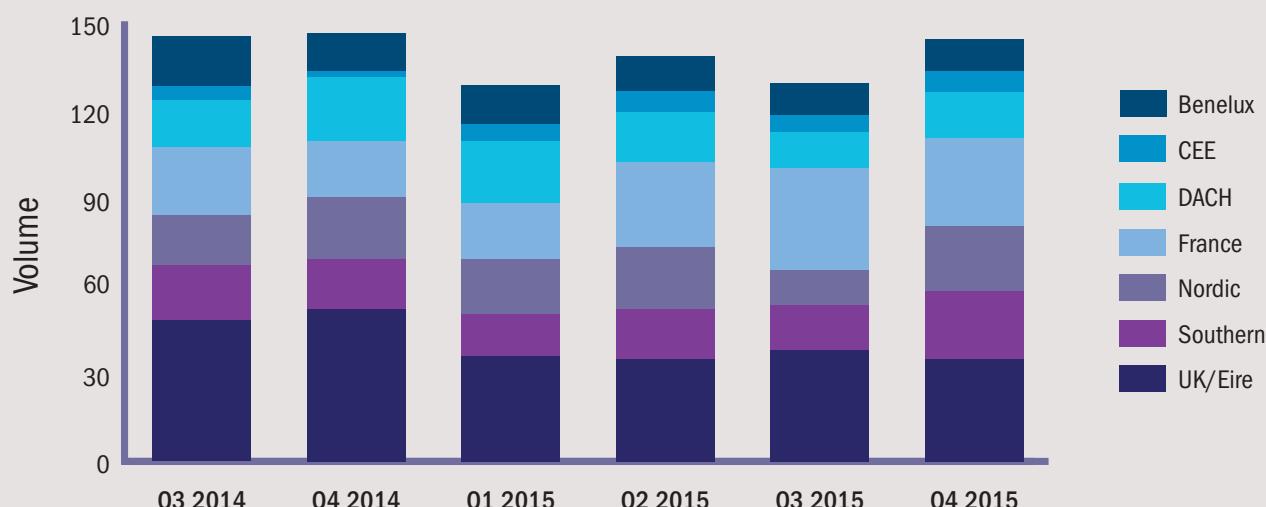
However there are clear signs of the return of the mega-deal. Volumes of mega-deals have increased through 2015, especially during the last three quarters, when they consistently represented more than 4% of total volume, peaking in Q2 at 6.5% of total European PE deals.

Conclusions

As the size of our Heatmap database increases, so we can analyse the performance of regions and sectors in ever greater depth, thereby providing an invaluable source of multiple data for investors. Our analysis of transactions up to the end of 2015 shows clear trends in the European market, and gives investors a strong overview of where value opportunities may lie.

We and *unquote* are now establishing a community of PE investors who are happy to share multiple data confidentially with us so that we can continue to improve the quality of the data and analysis. Do please feel free to contact me at miquel.marti@cwicf.com for more information. ■

Quarterly deal volume by region



International reach,
Excellent client outcomes



WWW.CLEARWATERINTERNATIONAL.COM

CHINA • DENMARK • FRANCE • GERMANY • IRELAND • PORTUGAL • SPAIN • UK • US

