

# Clearview

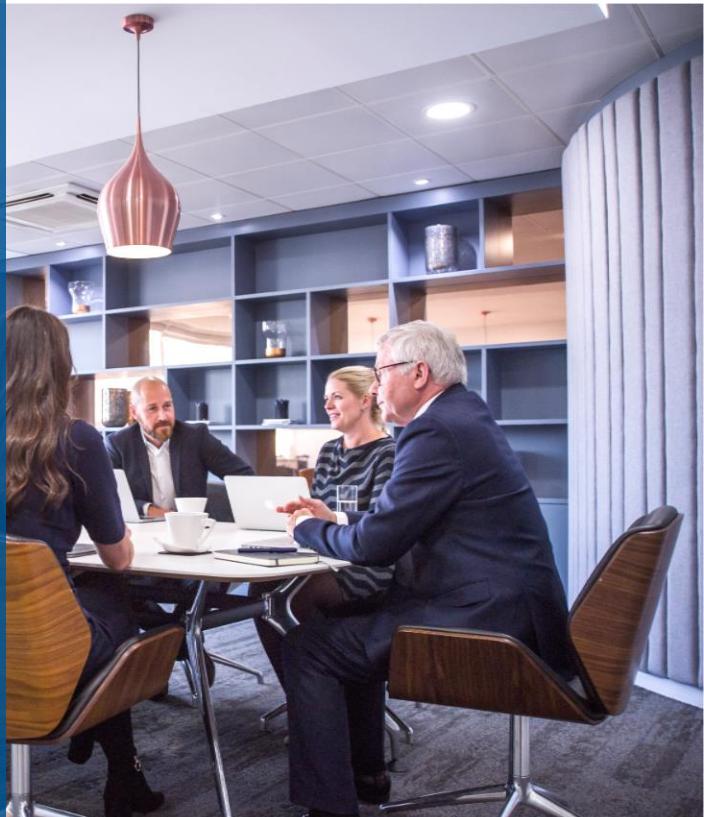
Q3 2018

## Multiples Heatmap

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

Inside:

- Price increases in DACH region
- Robust consumer entry multiples
- Drivers for buy-outs in the industrials 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 private equity investors in understanding drivers behind value trends across regions and sectors, leading to good investment opportunities.**

The average valuation for PE platform investments remained stable across Europe in Q3 2018.

Despite seeing a 7% fall in multiples in Q3 2018, the Nordic region remained the hottest and was joined by the DACH region which has experienced multiple inflation through 2018 - notably in the TMT sector, reaching its highest level since our analysis started.

The CEE and Southern regions represent best value opportunities with multiples falling by 12% and 9% respectively in Q3 2018.

The Benelux region saw multiples in line with Q2 2018 while valuations in the France and UK/Eire regions continued to see steady inflation, increasing by 7% and 3% respectively in the quarter.

Greatest volatility multiples were seen in the CEE and DACH regions.

The TMT sector continues to be the hottest in Europe, despite seeing multiples cool by 8% in the last quarter and also seeing the highest volatility.

The industrials & chemicals and consumer sectors have both seen material price rises, the former seeing an increase of 14% through 2018 and the latter experiencing a 12% rise in the last quarter.

The healthcare and food & beverage sectors saw the largest decline in multiples at 10% and 24% respectively.

The business services and financial services sectors both showed small price rises of c. 5%.

The best value continued to be seen in the €50-250m deal range, with the lower end experiencing 7% inflation and the higher end seeing a 9% fall in multiples.

Mega deals continued to be the hottest with valuation of deals of €500m+ inflating by 10%.

Multiples on sub-€50m transactions remained in line with Q2 2018.

In this quarter, the Multiples Heatmap unpicks trends in the DACH region and the consumer and industrials & chemicals sectors.

**The Unquote research team, alongside Clearwater International's sector groups and European offices, has collected data on 3,894 private equity buy-outs announced across Europe between 1st January 2014 and 30th September 2018.**



# High prices and higher expectations

**Pricing of PE-backed buy-outs in the DACH region has been increasing across the last four quarters. Clearwater International's Axel Oltmann speaks to Unquote about pricing and the pricing expectations in the region.**

"In general, I think the market is still in very good shape," says Oltmann. "We see a number of companies that are developing very well, increasing profits and accelerating their growth."

Private equity firms have been quick to take advantage of this of course, but they are not the only interested parties. "On good assets we see a lot of appetite from PE, then to a lesser extent family offices, and to an even lesser extent in absolute numbers from strategic buyers. However, for the assets they are interested in they will often outcompete the funds."

It's not just hot competition that is driving up the prices though: a combination of macro factors - including low interest rates, globalisation and digitalisation trends, and the impact of industry 4.0 concepts - lead investors from all over the world to look for assets in German-speaking Europe. "Everyone wants to get a piece from the nice German-speaking cake," says Oltmann.

The market is notoriously difficult for newcomers, especially in the smaller deal brackets where business owners can be reluctant to deal with investors with limited or no DACH footprint. "That is a challenge," acknowledges Oltmann, "However, as an advisor you are also happy to have new kids on the block and new candidates which you can add to situations. In the end it comes back to the question 'what is their differentiation factor?'"



Axel Oltmann  
Managing Partner, Germany

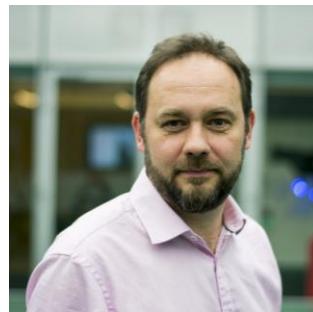
## Managing expectations

Despite the strong macro environment and abundance of interested parties, Unquote has recently spoken to several industry sources that have reported a higher than average failure rate for deals in the DACH region, some suggesting that 30-40% of processes in the €50-250m enterprise value range do not result in a full sale. "My experience and gut feeling is that it should be a bit less, but certainly it's more difficult the smaller the deal is," says Oltmann.

A key issue is that everybody is aware of high multiples in the market now and hopes to take advantage. When premium technology assets in the upper mid-market can achieve multiples of up to 20x, it can be difficult to temper the expectations of smaller business owners. "We have to moderate and make it clear that 'high performing' and 'ok' or 'normal' assets are very different," Oltmann explains. However, he also thinks there are measures the bidders themselves can take to increase the likelihood of a sale, "They can offer an earn-out structure, a very attractive reinvestment program or even a minority stake acquisition. Private equity funds that are flexible on deal structuring have a clear advantage here."

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**Everyone wants to get a piece from the nice German-speaking cake. „**



Julian Longhurst  
Head of Data & Research, Unquote



# Consumer trends

## **Clearwater International Head of Consumer Gareth Iley shares his thoughts.**

Given the well-publicised headwinds in certain consumer areas (high street retail, casual dining), what are the top-level factors keeping entry multiples robust in the sector as a whole?

First of all, it is important to remember that while headlines in the UK may have been somewhat dominated by the difficulties experienced by bricks and mortar retailers and casual dining chains, the situation is not the same across continental Europe. Most European economies are actually relatively stable and growth rates have recovered. The consumer sector continues to represent an important part of economic activity and therefore deal-doing has not been as significantly affected by changes in buying habits or expensive high street rents as it perhaps has in the UK. And while it has been sub-sectors away from retail that has driven the strong multiples in recent quarters, it is also clear that there remain good opportunities in the retail space, especially among those retailers that are protected against the conditions by strong e-commerce capabilities.

Overall, the latest data shows that there was a strong level of activity in the consumer space. And, with the exception of one or two outliers, entry multiples in the sector mostly fell in the 5x-15x range, underlining the fact that there are opportunities at all price points.

Deals in the travel and leisure space have been prominent in recent quarters. What are the big factors underpinning the attractiveness of this area and therefore the prices being paid?

PE-backed activity in the travel and leisure sectors has certainly been one of the standout features of the market in recent months. One of the main factors behind this is the growing focus on health and well-being among consumers. It is driving a number of areas in the wider sector, but travel is clearly one of the key pieces, with travel spending remaining robust as consumers continue to prioritise holidays and regular breaks.

Within this, there a wide variety of opportunities that are proving attractive – from all-inclusive tour operators to providers of much more bespoke or complex ‘luxury experiences’. Companies that have changed hands in recent quarters – often at robust multiples – range from the holiday providers (like Neilson) catering to more affluent consumers to those that serve lower income consumers. Across the board, the most desirable assets offer an effective online booking to access their holiday products. Deals in the latest quarter include the acquisitions of Neilson Active, On The Go Tours and Great Rail Journeys.

Outside of the travel space, the health and well-being angle (both physical and mental) has been important driver of activity in the gyms and fitness sub-sector across Europe and offers plenty of opportunities for buy-and-build and consolidations plays. It has also played a part in the consumer services area, with plenty of deal flow being seen in areas such as childcare and specialist training and funeral services. What's more this is not limited to the consumers themselves, but their pets - spending in pet-care areas has also led to attractive opportunities for M&A activity.

**Gareth Iley**  
Partner and International Head of Consumer, UK



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# Industrial focus

## Constantine Biller, International Head of Industrials & Chemicals, discusses market drivers.

The number of European buy-outs in the industrials sectors has grown steadily in the last few years and in 2018 is likely to reach the highest level since 2007. What are the big factors driving this?

There are multiple factors combining to make the broader industrials sector an active space for private equity buyers and sellers, and M&A in general. From a macro perspective, and despite political headwinds in some regions, economic outlooks have improved significantly in recent years and this has provided a fillip to a number of areas within industrial sub-sectors.

Another driver is that many global industrials groups have become conglomerates over the last decade or so and they have now realised that they are too widely spread and not sufficiently focused on growth areas. This means that many of the large groups are shedding their non-core activities and these opportunities are ideal for private equity investors. General Electric Co is the classic example of this at the moment. At a time when European private equity sponsors have unprecedented amounts of dry powder available to them, competition to deploy capital is strong.

Also, whether we like it or not, environmental factors are increasingly driving M&A in the industrial sector, with the automotive industry in particular being driven by autonomous vehicles and electro-mobility. Obviously, environmental and energy-preservation factors are relevant in other industrial sectors as well.

Industrial machinery and suppliers have driven the statistics in Q3, with high dealflow and some high multiples being recorded. What are the factors that are driving some of the premium prices being paid?

While not strictly limited to companies operating in these subsectors, one of the most important factors in the Industrials segment as a whole is 'Industry 4.0' - the increasing automation of industrial equipment or what is often called "smart manufacturing". Linked to this point is the increasing connectivity and digitisation in the industrials sector as groups use data to manage their production activities. As a result of these trends, industrial groups and their backers are very keen indeed to make acquisitions which will allow them to keep pace with the market. Again, alongside strong interest in the region from financial and corporate buyers from Asia and other global regions, this is helping to push up competition and prices for the best assets.

Constantine Biller  
Partner and International Head of  
Industrials & Chemicals, UK



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## Recent Clearwater International Private Equity Transactions



THE CARLYLE GROUP  
EUROPEAN  
CAMPING  
GROUP

acquired



Buy-side

Undisclosed



**kn group**

merged with

**circet**  
CRÉATEUR DE RÉSEAUX TÉLÉCOMS

backed by

**Advent International**  
GLOBAL PRIVATE EQUITY

Sell-side

Undisclosed



**CET** Giving our all

sold to



Sell-side

Undisclosed



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](mailto:miquel.marti@cwicf.com)



**Axel Oltmann**

Managing Partner, Germany

Tel: +49 69 58302 77 22

Email: [axel.oltmann@cwicf.com](mailto:axel.oltmann@cwicf.com)



**Constantine Biller**

Partner, UK

Tel: +44 845 052 0353

Email: [constantine.biller@cwicf.com](mailto:constantine.biller@cwicf.com)



**Gareth Iley**

Partner, UK

Tel: +44 845 052 0367

Email: [gareth.iley@cwicf.com](mailto:gareth.iley@cwicf.com)