Multiples Heatmap

Mapping out value

As entry multiples continue to rise, this report uncovers the regions and sectors in Europe offering the best value, by looking back at prices paid by private equity over the last 18 months

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Market Summary

The past 18 months have been characterised by liquid debt markets, large volumes of dry powder and the return of cash-rich corporate buyers. It is therefore not surprising that asset prices have steadily been rising

With business confidence returning in 2014, thanks to cheap credit and a more stable macro environment perceived throughout Europe, private equity firms have been enjoying a healthy exit market, generating impressive returns and returning cash to investors. However, when it comes to putting money to work, GPs are facing an unfavourable supply and demand dynamic as a surplus of capital chases a dwindling number of opportunities. For business owners, this means there are now more options than ever, thanks to a competitive private equity industry, a buoyant alternative credit market, savvy family offices and high-net-worths as well as trade buyers sitting on strong balance sheets.

For private equity houses competing in processes, plentiful and cheap debt has caused some to be more aggressive on price, while still sticking to their equity sweet spots. This kind of activity only leads to further price increases, especially as in the private debt markets, more players are chasing higher leverage ratios and lower rates of returns.

European private equity's engine room – the mid-market – has witnessed the bulk of this activity as it is one of the most over-crowded segments of the industry. This is compounded by the fact that often GPs are unable to shift strategies on existing funds as a means of mitigating escalating prices. For some private equity firms, particularly those that have recently closed funds, the safest option is to exercise restraint and wait for the market to settle down.

However, others who are more uncertain as to whether a correction will come about, or who are under time pressure to put money to work and wrap up funds, are having to swallow higher prices. While this is clearly not private equity's preferred method of investing – GPs have long prided themselves on being able to unearth value in hidden gems – some are clearly taking the view that paying higher prices is necessary for quality investments.

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Despite this recent trend of shelling out more cash for quality assets, GPs remain disciplined in terms of selection; focusing in on assets where private equity can genuinely bring value and picking those companies best suited to the team's experience and skills.

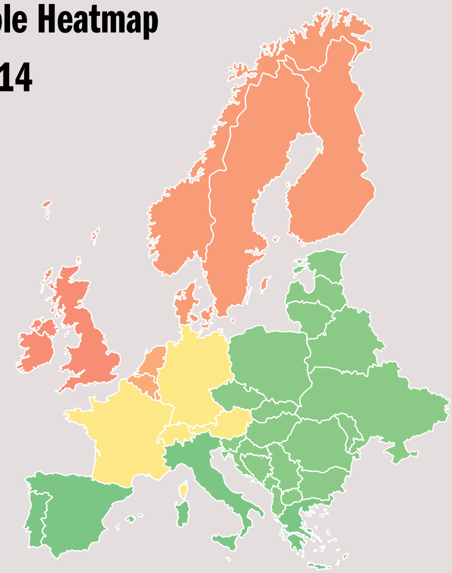
It is against this ever-challenging background that *unquote"* in partnership with Clearwater International has launched its Multiples Heatmap. This first instalment looks back over the changing environment of these past 18 months in order to determine where value can still be unearthed, and which sectors 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 outsized returns for investors. ■

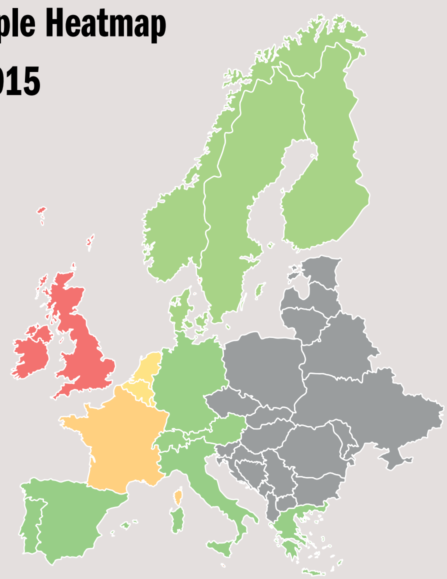
Multiples data breakdown

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Benelux	11.4	6.9	8.1	10.7	9.6	11.5
CEE	12.1	6.3	–	7.3	–	8.4
DACH	9.3	8.7	9.9	9.5	7.7	10.3
France	9.2	9.8	8.7	9.5	9.9	9.4
Nordic	8.9	9.4	8.0	11.0	7.9	9.9
Southern	7.8	7.1	9.8	7.0	7.6	10.8
UK/Eire	9.1	10.4	9.9	11.3	12.0	10.4

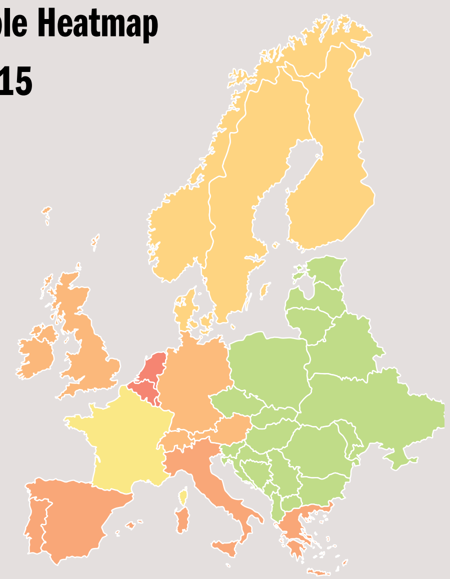
Multiple Heatmap Q4 2014



Multiple Heatmap Q1 2015



Multiple Heatmap Q2 2015



Methodology

The Multiples Heatmap data is based on a sample of just fewer than 330 European private-equity-backed buyouts completed between January 2014 and June 2015, and represents more than 40% 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 the Clearwater International network.

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

Europe's entry multiples heating up

In the first in a new series of bespoke analysis by Clearwater International and *unquote"*, Clearwater's head of private equity, Miguel Marti, delves into the data to find Europe's most value-for-money investment opportunities

Securing strong multiples on exit is the holy grail for all private equity investors. But, of course, an exit is all the sweeter if you've paid a really competitive price for the asset in the first place.

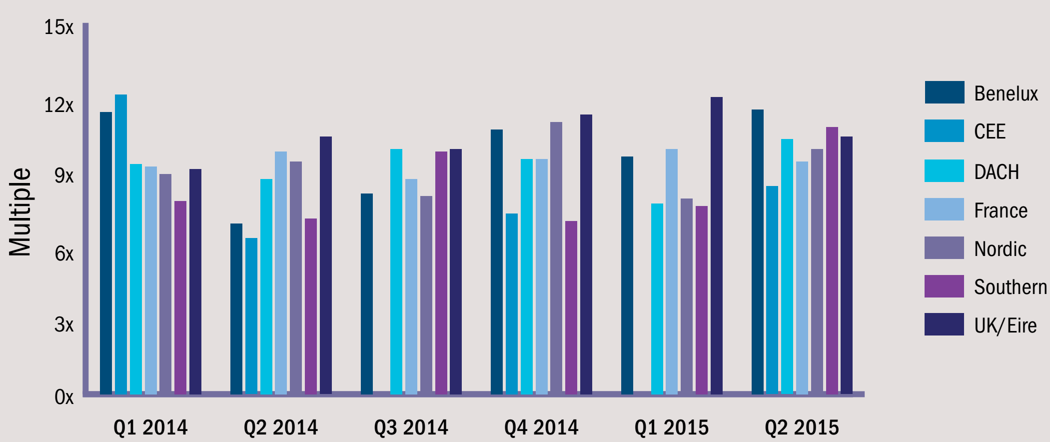
So just where are the value opportunities across Europe right now? In which countries and in which sectors should investors be looking?

Well, following research by Clearwater International and *unquote"* we believe we've found some of the answers. After analysing data on some 329 PE deals across Europe between January 2014 and June 2015 we've identified where the highest multiples have been paid across regions and sectors, the direction of those multiples over time, and what trends can be unearthed as a result.

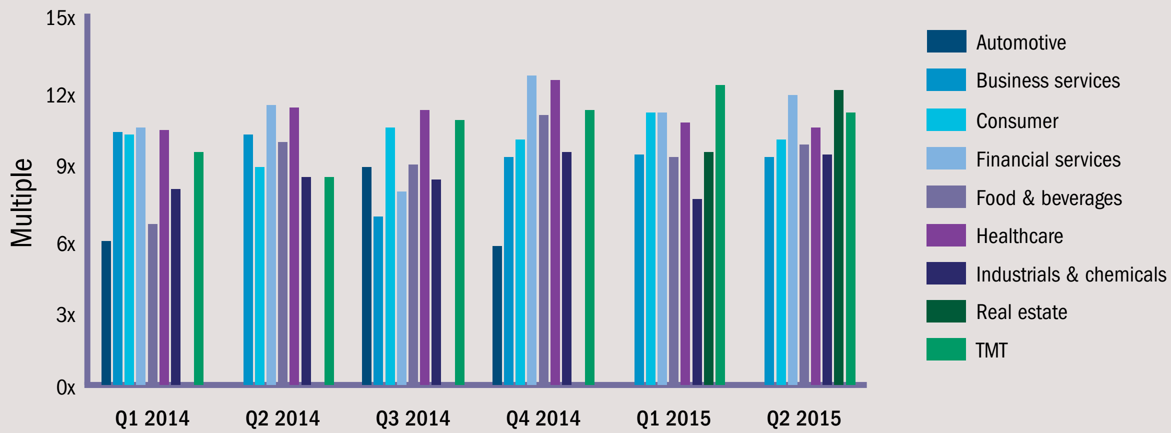
UK and Eire remain expensive

As our chart shows, the UK/Eire and Benelux have consistently seen the highest multiples, particularly in the financial services and TMT markets which were also hot sectors across all regions.

Quarterly average multiples by region



Quarterly average multiples by sector



By contrast Central and Eastern Europe (CEE) and Southern Europe appear to offer the best value opportunities, though multiples are strong in healthcare, and again in TMT and financial services.

Average multiples were closely grouped across the Nordics, France and DACH (Germany, Austria, Switzerland) but with variances across sectors, in particular in relation to consumer and food and beverage transactions.

Business services shows the widest range of multiples across Europe, with low rates in the Facilities Management (FM) sector in Spain and logistics sector in Belgium, through to high multiples across the sector in the UK/Eire.

Healthcare remains hot

Healthcare remains a particularly attractive sector across Europe, although the UK/Eire multiples seem to have been held back by the budget squeeze.

Meanwhile, industrials and chemicals multiples are tightly grouped with the best value opportunities in Southern Europe and DACH.

Driven by continued strong activity in restaurants, leisure and branded retail, the consumer sector is particularly hot in UK/Eire and DACH, but the Benelux and CEE regions are seeing lower levels of deal activity and multiples. In turn, the food and beverage sector is hot in Nordics, albeit against low volumes, with the best value opportunities in DACH.

Meanwhile, it probably comes as little surprise that the real estate market is very hot in the UK, while we are also seeing high levels of activity in France and good investment opportunities in Southern Europe too. The active investor groups are often real estate specialists or family offices, and often in Special Purpose Vehicle (SPV) structures.

Southern Europe pick-up

By analysing quarterly figures during the above period we can track the general direction of travel in terms of multiples figures.

Across Europe our research found that multiples have steadily been picking up, showing an 11% increase during the period with the most dramatic increase in Southern Europe of 38%.

Multiples in UK/Eire have remained consistently high over the whole period, peaking in Q1 2015, while Benelux has shown the most dramatic rise in 2015 (however, the Q1 multiple was distorted by a significant healthcare transaction).

Nordic region multiples have tracked just behind the UK/Eire market, although we should note that the Q1 2015 figure was distorted by a low multiple building products transaction. France and DACH multiples remained similar over most of the period and tracked the Nordic region, while multiples in DACH accelerated past France in Q2 2015. Southern Europe has consistently been trading at low multiples, but there has been a significant pick up in pricing in Q2 2015 as the market recovers.

Quarterly analysis

If you look at deal activity by quarter for particular sectors, we have been able to unearth some interesting observations.

For instance, healthcare and financial services have consistently shown double digit multiples over the period, with both sectors peaking in Q4 2014. However food and beverage has shown the most dramatic increase in valuations, increasing by around 50%.

TMT has shown a steady increase over the past 18 months with a peak in Q1 2015. It is also worth noting here that the number of US investors in TMT is far greater than in any other sector.

Industrials and chemicals multiples have been tightly grouped but have shown a sharp increase in Q2 2015. While business services has also been steady, peaking in the first half of 2014 before dropping back to a consistent level since Q4 2014.

Consumer sector multiples have shown the greatest quarterly fluctuations, although with an underlying upwards trend. Real estate transactions are showing high multiples driven by asset backing, though investors are typically sector specialists rather than mainstream mid-market private equity funds.

High price inflation in small deals

When it comes to an analysis of deal size by the quarter, as expected larger transactions have been trading at higher multiples than smaller deals.

However multiples have been increasing at the greatest rate on smaller deals, by around 25% over the period for sub €50m transactions, and by around 23% for €50m to €100m deals. Mid-market transactions of between €100m and €250m have shown a steady downward trend over the period, but picked up again in Q2 2015. At the top end of the mid-market, multiples have fluctuated with a decline in the middle of 2014 but picking up again since Q4 2014.

Mega deal multiples have remained fairly consistent over the period, although multiples in Q1 2015 were depressed by low multiple deals in the industrials and chemicals sectors.

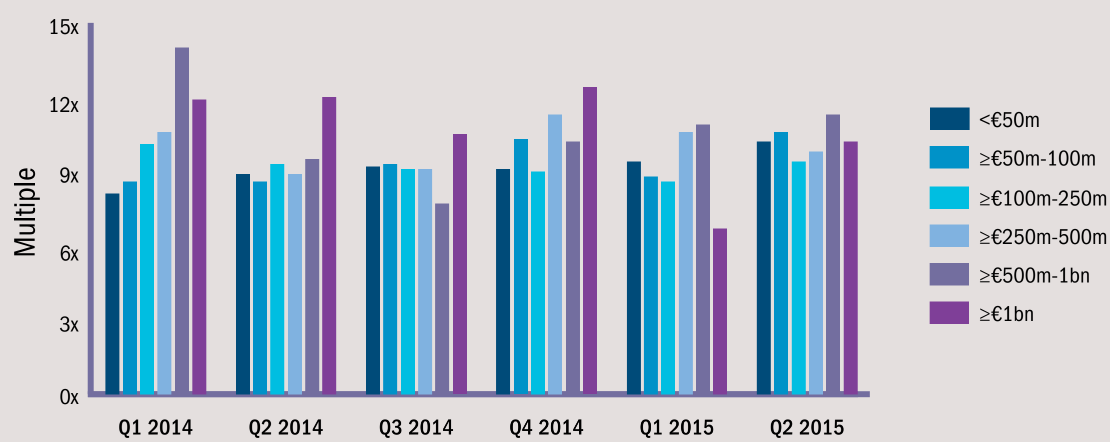
The spread of multiples across all deal sizes has narrowed dramatically over the period, with a range of 8.1x to 14.0x back in Q1 2014 compared to only 9.4x to 11.3x in Q2 2015.

Deal volume trends

The consumer, industrials and chemicals sectors make up the biggest proportion of deals across all regions. Meanwhile it is notable that TMT represents a significant share of UK/Eire deal volumes, though a lower proportion across the rest of Europe.

Business services is a material component of deal activity in the UK/Eire, Nordic and French regions, but low in southern Europe, while financial services is a key sector in the UK/Eire but only a small part of deal activity across the rest of Europe. Healthcare volumes

Quarterly average multiples by size range



are very low in Benelux and CEE, but represent a consistent proportion elsewhere on the continent.

Sector strengths

Taking deal volumes by sector, again it is the consumer, industrials and chemicals markets that make up a significant proportion of total deal volumes, followed by TMT and business services.

Overall deal volumes peaked in Q2 2014 before dipping in Q1 2015, primarily because of lower UK activity due to the General Election, and then recovered again in Q2 2015. The mix of dealflow across the period has remained fairly consistent, with the occasional quarterly dip, such as in business services in Q4 2014.

UK/Eire and smaller deals lead the way

In terms of regions, the UK/Eire has consistently seen the highest levels of deal activity, most notably in Q4 2014 when it dwarfed activity elsewhere. Activity in France has picked up steadily since Q4 2014, peaking in Q2 2015, while DACH deal volumes have gradually declined since Q2 2014. Benelux activity has gradually dropped back since a peak in Q3 2014.

From a low in Q1 2014, Southern European activity has dramatically picked up to a stable level since mid-2014, a sign that confidence is beginning to return to these markets. CEE represents a small proportion of overall deal volumes, though activity levels have sharply increased since Q4 2014.

In terms of size, as expected sub €50m value deals dominate deal activity levels across the period, in some quarters representing the majority of transactions. Volumes of deals in the €50m to €250m, and €250m to €500m space have been similar across the period, but represent a far greater proportion of total activity levels in 2015.

There were very few €500m to €1bn deals in early 2014 but activity levels have picked up since the end of 2014. The volume of mega deals in Europe has remained low throughout the period, particular in the second half of 2014 and early 2015, but has picked up as 2015 has progressed.

Summary

Our analysis has shown that certain sectors in certain countries remain particularly competitive on pricing. But the general trend – buoyed by a return to growth across the wider European economy – is undoubtedly upwards, with assets across most sectors becoming more expensive in recent months. PE funds undoubtedly will need to look into regions such as Southern Europe to find the less expensive opportunities.

However the upward trend could also pose opportunities for vendors. Indeed, if a PE fund owns an asset in a hot region in a hot sector one could certainly make the case that it's not a bad time to consider selling.

Quarterly deal volume by region