

Clearwater International Multiples Heatmap

Q3 2022

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

INSIDE

EUROPEAN OVERVIEW:

The tempo of European PE activity slowed markedly in Q3 2022. Against this increasingly complex background, the average long-term EV/EBITDA multiple for European PE transactions eased from the historic high achieved in Q2 2022.

SPOTLIGHT ON: US Sponsors

SECTOR FOCUS: TMT

At a glance: Q3 2022

LTM trends

Q3 2022 vs Q2 2022

In terms of the last 12 months, PE deals were down by 11% (volume) and 8% (value) in LTM Q3 2022 versus LTM Q2 2022.

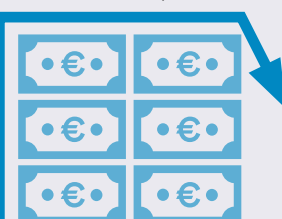
-11% vs. LTM Q2 2022

1,052
DEALS
LTM Q3 2022



-8% vs. LTM Q2 2022

€267
BILLION
in deal value



Quarterly trends

Q3 2022 vs Q2 2022

Quarter-on-quarter, volume and value fell compared to Q2 2022 by 25% and 46%, respectively.



212
DEALS
IN Q3 2022

-25% vs. Q2 2022

€45
BILLION
in deal value

-46%
vs.
Q2 2022



Top regions

Q3 2022

France was the top-performing region in Q3 2022 for both volume (57 deals) and value (€15.1bn).

France 57 deals



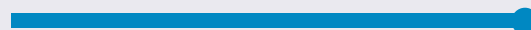
UK/Ireland 49 deals



Southern Europe
38 deals



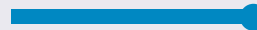
France €15.1bn



UK/Ireland €13.9bn



Southern Europe
€7.1bn



Top sectors

Q3 2022

The TMT sector led the way for deal value in Q3 2022 (€13.4bn), and tied with the industrials and chemicals sector by volume (51 deals).

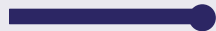
TMT 51 deals



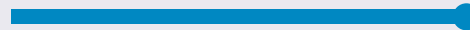
Industrials and chemicals 51 deals



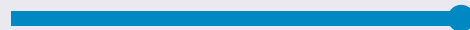
Business services
42 deals



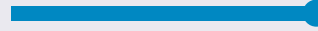
TMT €13.4bn



Business services
€13.2bn



Industrials and chemicals
€9.0bn





European overview

Our quarterly report identifies the major themes driving EV/EBITDA multiples in European private equity (PE) deals. The objective is to help PE investors understand trends across regions and sectors, leading to better investment decisions.

The tempo of European PE activity slowed markedly in Q3 2022. Dealmaking conditions continued to tighten, with rising inflation, higher interest rates and mounting supply-side constraints playing on acquirers' minds. Against this increasingly complex background, the average long-term EV/EBITDA multiple for European PE transactions eased from the historic high achieved in Q2 2022.

Delving into the data, deal volume in Q3 was down 25% quarter-on-quarter, with a total of 212 transactions versus 283 in Q2. LTM (last twelve months) deal volume was also sharply lower, falling to 1,052 in Q3 from 1,176 in LTM Q2 2022, representing a contraction of 11%.

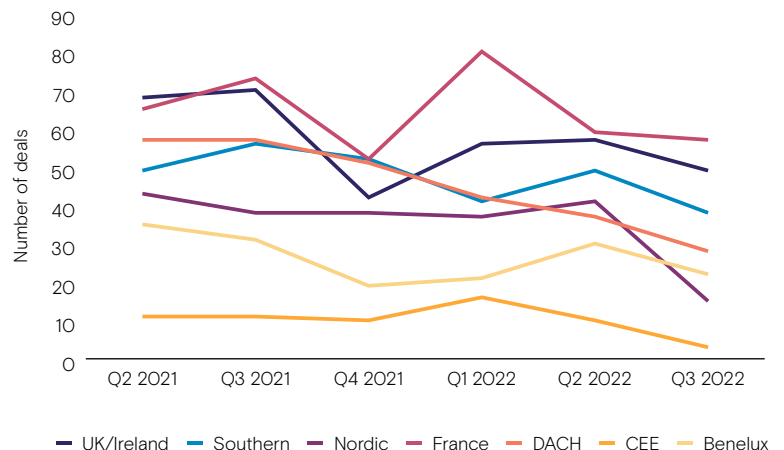
Deal value saw an even sharper fall. The total value of all transactions in Q3 was €44.9bn, down a hefty 46% compared to the previous quarter. That said, Q2 2022 was always going to be a hard act to follow – the value achieved in that remarkable three-month period (€83.6bn) was the highest ever recorded. LTM deal value data paints a more stable picture, with year-to-date transactions in Q3 2022 totalling €267.5bn – a decrease of 8% on the LTM total of €289.5bn recorded in Q2 2022.

REGIONAL OVERVIEW

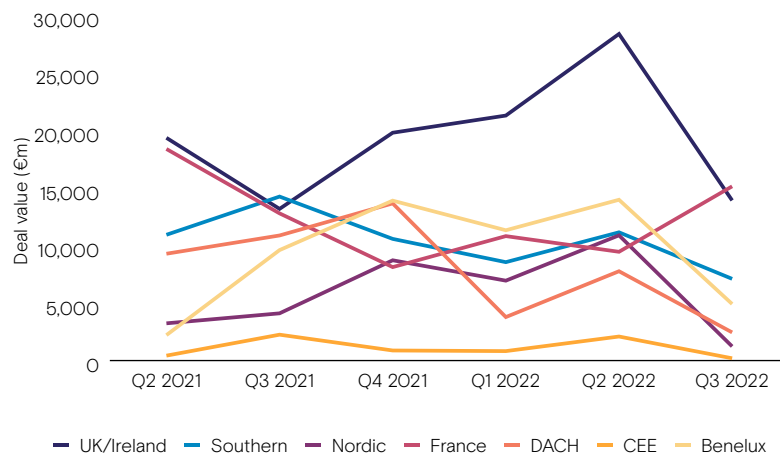
France was Europe's most prolific PE deal generator in volume terms in Q3 2022, logging 57 transactions, comfortably ahead of second-place UK and Ireland with 49. The French industrials & chemicals sector in particular saw substantial activity with 20 deals, putting France far ahead of other European subregions.

France has emerged as a dealmaking powerhouse of late. Q3 2022 marks the fifth consecutive quarter in which it has held the number-one spot either exclusively or jointly. The

QUARTERLY DEAL VOLUMES BY REGION



QUARTERLY DEAL VALUES BY REGION



Deal volume in Q3 was down 25% quarter-on-quarter, with a total of 212 transactions versus 283 in Q2.



European overview continued

Southern subregion (Spain, Italy and Portugal) was Europe's third-biggest deal generator in Q3, recording 38 transactions.

Turning to deal value, France again seized the top spot with transactions totalling €15.1bn in Q3, up 60% compared to the previous quarter. France was the only European region in which deal value rose in Q3, thanks in large part to a single TMT transaction – the €6.8bn acquisition by Cegid, the Silver Lake-backed French software group, of Spain-based Grupo Primavera. The deal underlines the drive towards consolidation in Europe's fiercely competitive but fragmented business software market.

Elsewhere, the UK and Ireland racked up deals totalling €13.9bn in Q3, down 51% from the previous quarter. Meanwhile, the Southern region generated aggregate deal value of €7.1bn, down 36% compared to Q2.

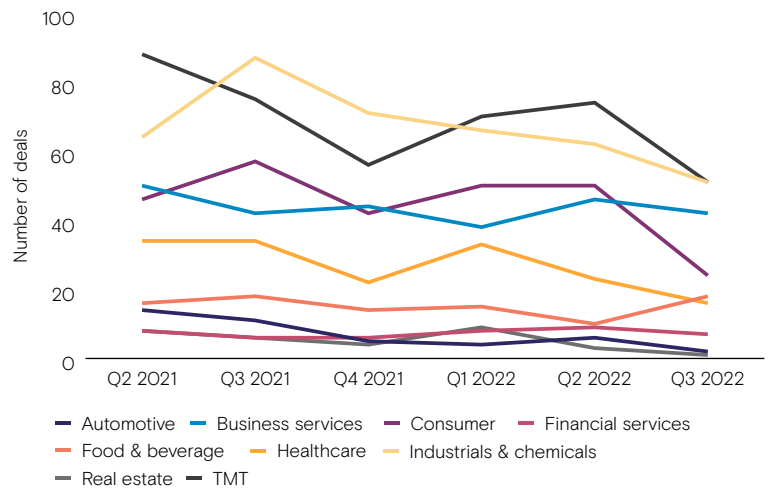
SECTOR WATCH

Focusing on key sectors in Europe, Q3's star performers in terms of volume were TMT and industrials & chemicals, each of which logged 51 deals. In both cases, volumes were down compared to the previous quarter. Business services was the next busiest sector, achieving a tally of 42 deals, followed by consumer with 24 transactions.

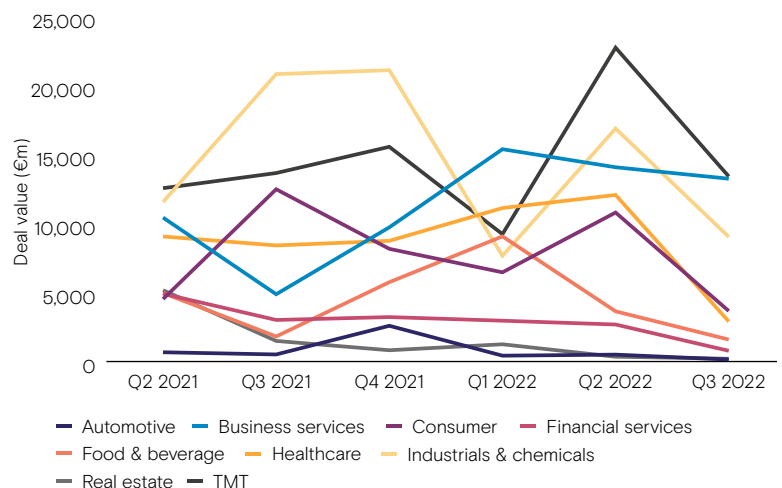
In terms of overall sector value, TMT triumphed, but only just, with deals amounting to €13.4bn. Trailing close behind, business services generated transactions worth €13.2bn. This sector has been a consistent performer amid the turbulence of the past three quarters. It emerged from Q3 relatively unscathed, with overall value down only 6%, the smallest decrease of any sector. Consolidation opportunities abound and the sector's services have the added appeal of being non-discretionary for end customers racing to drive efficiencies.

In third place, industrials & chemicals recorded transactions totalling €9bn. Notably, it is the only sector to have bucked the trend of declining EV/EBITDA multiples in 2022. The sector's average deal multiple has grown throughout the year, rising by half a turn of EBITDA since Q1.

QUARTERLY DEAL VOLUMES BY SECTOR



QUARTERLY DEAL VALUES BY SECTOR





Spotlight on: US sponsors

Despite mounting headwinds, US PE sponsors remain a force to be reckoned with when it comes to European inbound investment. David Cannon, Managing Director of KeyBanc Capital Markets, Clearwater International's US partner, explains the enduring attraction of European targets – and why dealmakers are getting more creative.

US PE investment in Europe plunged in Q3 against a backdrop of rising inflation, higher borrowing costs and ongoing geopolitical turbulence. Deal volume was down markedly, with 51 transactions in Q3 versus 117 the previous quarter. Aggregate deal value was also sharply lower, with US inbound investments totalling US\$11.2bn compared to US\$81.8bn in Q2. That said, Q2 was always going to be hard to beat, particularly in terms of deal value, which was the highest on record.

Dealmakers are, understandably, being cautious given current headwinds. But there are tailwinds, too. One of these is the continuing strength of the US dollar relative to European currencies – and against sterling in particular, which slumped spectacularly in Q3. Meanwhile, softening public markets continued to yield buying opportunities.

“Large deals are continuing to close,” confirms David Cannon, Managing Director of KeyBanc Capital Markets, the corporate and investment banking arm of US-based KeyCorp. “Take-privates have been a common theme – financial sponsors have a tremendous amount of dry powder to pursue assets at discounted multiples. Lower equity valuations and weakening currencies relative to the dollar create opportunities for US investors.”

In addition to take-privates, there is an increasing focus on reinforcing existing portfolio companies. Add-ons are a particular area of interest. “Sponsors are looking to create value through buy-and-build strategies,” says Cannon. “PE firms that are reluctant to make a platform investment in Europe are much more comfortable doing buy-and-build



“Lower equity valuations and weakening currencies relative to the dollar create opportunities for US investors.”

David Cannon, Managing Director, KeyBanc Capital Markets (KBCM)



Spotlight on: US sponsors_{continued}

with an asset they already own. There is a much greater openness to transacting like that.”

FOCUS ON FUNDAMENTALS

Rising inflation and higher interest rates make for a difficult dealmaking climate. So unsurprisingly, investors are looking for targets that promise long-term resilience. “Businesses that are able to pass on cost increases and endure inflationary impacts are going to be the most compelling, as they tend to be most resilient during a downturn,” emphasises Cannon. “Sectors of interest include business products and services, green energy, infrastructure, and healthcare.”

One area that is attracting particular attention is renewable energy. “Europe has long been focused on green initiatives,” notes Cannon. “But the war in Ukraine has made the challenge much more acute, and it will accelerate efforts to find solutions to mitigate reliance on Russian oil and gas. That’s not a short-term fix. There’s a real focus on renewables and green energy transition is a meaningful piece of the investment thesis for many PE firms.”

Turning to appealing geographies, the UK and Ireland remains a firm favourite with US investors, despite the political turbulence witnessed in the UK in the latter part of Q3. This culminated in a meltdown (albeit short-lived) in the UK bond market. What effect has this had on investor confidence? “I would venture to guess that it is not going to be a long-term impediment to doing business in the UK, particularly with US sponsors,” Cannon says. “A similar regulatory environment and common language means the UK is likely to be the preferred geography for US PE firms to transact.”

DEAL DYNAMICS

As financing becomes tougher, investors are inevitably adapting their tactics. One notable trend is a greater reliance on the use of equity in transactions. “Funds are increasingly willing to over-equitise to get deals done for high-quality assets,” notes Cannon.

Minority stakes are another trend to watch. “We may see more activity in non-control investments by PE firms where they come into existing deals without upsetting the capital

“Funds are increasingly willing to over-equitise to get deals done for high-quality assets.”

David Cannon, Managing Director, KeyBanc Capital Markets (KBCM)

structure,” says Cannon. “This will give existing owners an ability to monetise their position and get a mark on their deals.”

Overarching all of this is the thorny question of price expectations. “There will need to be a calibration of expectations between buyers and sellers in order for dealmaking to remain robust,” Cannon says. “Buyers have calibrated their expectations – now it’s the sellers who potentially need to come in line.”

Headwinds aside, an abundance of high-quality targets in sectors such as business services, technology, and healthcare means Europe is likely to remain an attractive destination for US investors. “Sponsors are certainly open for business, and they are creative. Therefore, I think we will continue to see an active market,” concludes Cannon.

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Sector focus: TMT

Resilient fundamentals, recurring revenues, and robust environmental, social & governance (ESG) credentials make TMT an increasingly attractive sector for PE investors, as Clearwater International partner Wesley Fell-Smith explains.

Dealmaking conditions were tough in Q3 2022. All sectors were affected, and TMT was no exception – deal volume dropped 31% quarter-on-quarter, while aggregate value tumbled by 41%. Against this background, the long-term deal multiple for TMT retreated – the sector's first quarterly decline since Q3 2020.

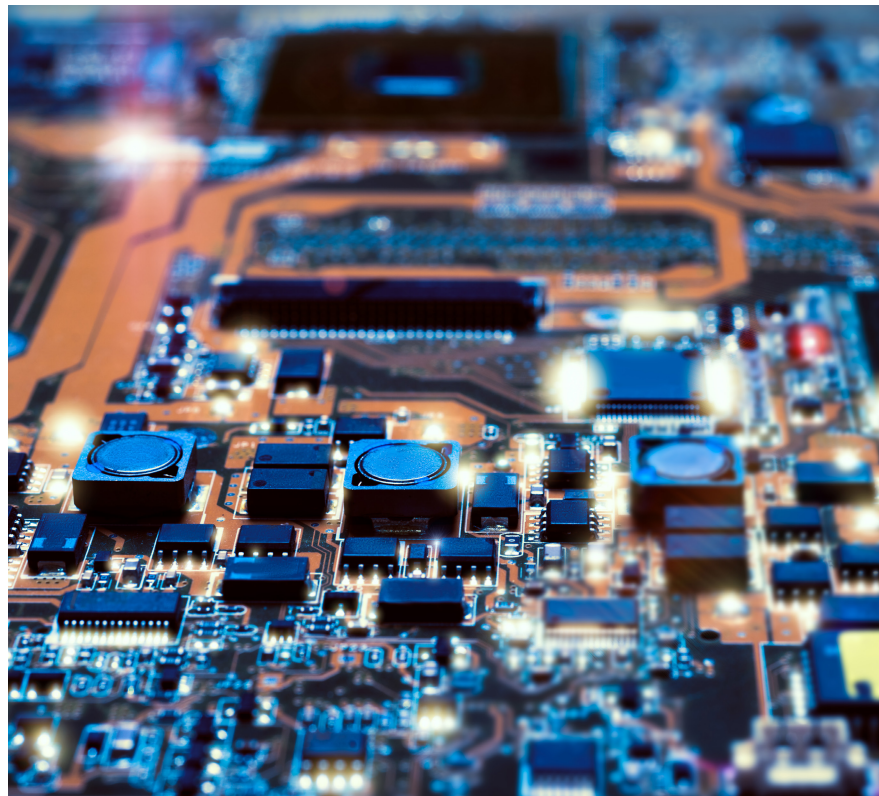
Given the frantic pace of dealmaking in H1 2022, TMT's relatively weak performance in Q3 looks more like a correction than a collapse – especially when compared with Q2, which saw aggregate European TMT deal value soar to a record €22.7bn.

While activity in Q3 2022 was not stellar, it was not disastrous either, logging 51 deals worth a combined €13.4bn – a figure only marginally lower than the €13.6bn recorded in the same quarter in 2021. Nor were the declines universal. While the UK and Ireland were down quarter-on-quarter, French dealmaking soared, with TMT transactions in the country totalling €7.7bn – the highest-ever quarterly total for France in any sector.

PROFIT WITH PURPOSE

TMT has strong countercyclical characteristics that mean it is well placed to thrive in the midst of economic disruption. It also has the unique advantage of being omnipresent – from automotive to real estate, every sector now depends on technology products and services.

The all-pervasive nature of TMT and its capacity to solve problems are key attractions for PE investors. “Tech isn't just a tool for making money, it's also a tool to address some of society's biggest issues,” says Wesley Fell-Smith, Clearwater International partner. “Whether it's tackling supply and demand in healthcare systems, or dealing with



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Wesley Fell-Smith, Partner, Clearwater International



Sector focus: TMT_{continued}

environmental challenges, tools, and technologies that address the big questions will remain resilient – regardless of the macro environment.”

Problem solving is every bit as important as profit in a growing number of sectors – healthcare among them. “We are working with clients at the moment who are absolutely oriented on improving patient outcomes – every iota of their being is saying, ‘Why aren’t we making data-driven decisions about patient treatments to improve their outcomes?’” says Fell-Smith. “They are driven to improve the eventual outcome for all of society, with a by-product being that it results in more sales.”

Similar patterns can be seen in other TMT segments, from edtech to reverse logistics, where technology is not only driving revenue growth but contributing to broader goals, such as boosting social mobility and cutting carbon emissions. Indeed, TMT investments are increasingly seen as a way of achieving ESG objectives.

“It’s a very real consideration,” explains Fell-Smith. “We have an internal ESG team here that’s helping us consider ESG as part of the deal process as we believe it will be an increasingly important part of the way that dealmaking will progress – it has moved from being a factor that you put down on a list of considerations, to being at the forefront of the deal process.”

RESILIENT TARGETS

Another major attraction of TMT investments is their resilience and capacity for generating recurring revenues – characteristics that PE investors prize. Clearwater International recently advised on three transactions in the IT services sector where Aspire Technology Group, BCN and Littlefish received investment from LDC, ECI and Bowmark respectively. “They are good examples of where you’ve got a flight to very high recurring revenue businesses in resilient, broad segments, where managed services are ubiquitous,” says Fell-Smith.

Targets of this sort are being pursued by investors as they race to shore-up their portfolios amid macro-economic headwinds. “It comes back to the need to solve problems,” Fell-Smith says. “Businesses with a horizontal, rather than

“Businesses with a horizontal, rather than a vertical focus, tend to be better insulated by the fact that they have a base of customers in different pockets.”

Wesley Fell-Smith, Partner, Clearwater International

a vertical focus, tend to be better insulated by the fact that they have a base of customers in different pockets, and therefore don’t have the same issue of relying on a particular segment’s drivers.”

What might the future hold for TMT, particularly given the murky macroeconomic picture? “I suspect we are going to see a flight to resilience and profitability, where previously the market was focused on scale and growth,” says Fell-Smith. “From our perspective, we’re excited about the TMT segment. There remain strong drivers for investment.”



Clearwater International has a proven track record of excellent client outcomes. With 16 international offices and more than 350 employees, the business has completed over 2,200 transactions worth an aggregate value in excess of €120bn.

We have a rich and respected heritage in private equity, working with investors, entrepreneurs and management teams over many years. Our success comes down to our connections, knowledge, scale and global outlook.

Our experienced Debt Advisory team ensures that clients looking to raise new debt capital or refinance existing facilities have access to the most sophisticated and specialised debt packages available on international markets.

Our independence from any larger financial institution or consulting firm ensures that we can give truly objective advice, guiding clients through the challenges faced. All transactions are partner-led, offering high levels of personal service and knowledge. We take great pride in the fact that many of our clients return to us for advice on multiple occasions.

Selected Clearwater International private equity transactions from the last quarter

  MOTION EQUITY PARTNERS Investing in progress acquired a minority stake in  TOURNAIRE Produit de méditerranée, prestige, Excellence depuis 1853 Buy-side Undisclosed	  Shareholders including  LDC BACKING AMBITION sold  littlefish to Sell-side Undisclosed	  palatine sold to  Oakley Capital Sell-side Undisclosed	  KeyBanc Capital Markets  RUBICON PARTNERS on its sale of  John Lawrie TUBULARS to  Center Rock Sell-side Undisclosed
  argos.wityu and the management sold  JURATOYS to  Maped Sell-side Undisclosed	   djh midden clarke great things together on its investment from Sell-side Undisclosed	  Adelis Equity sold  NORDENTIC to  Corus Sell-side Undisclosed	   DEA CAPITAL ALTERNATIVE FUNDS SGR raised finance from  INTESA  SANPAOLO  MPS  SPARKASSE to support the acquisition of Debt advisory Undisclosed

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



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