

Q3 2020 Multiples Heatmap

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

Inside:

- Deal volume broadly recovers to pre-COVID levels with valuations continuing to rise
- Sweden market overview
- TMT sector focus





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.

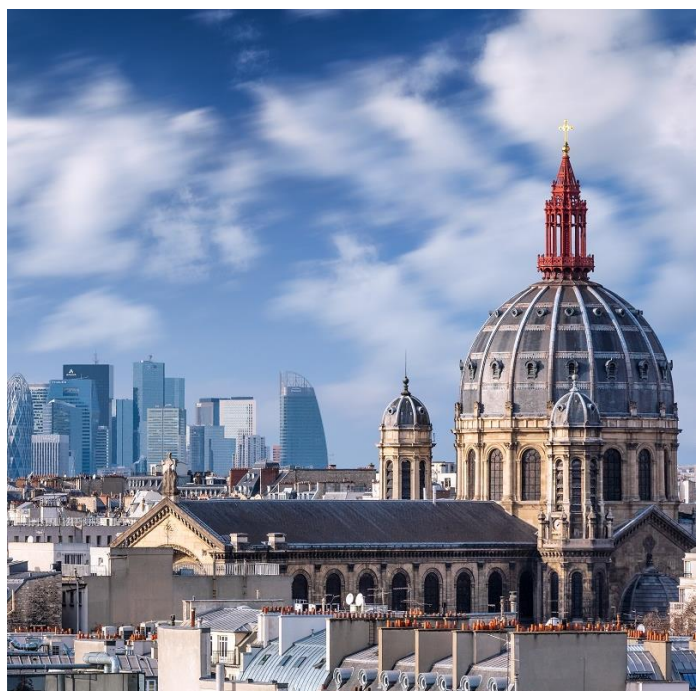
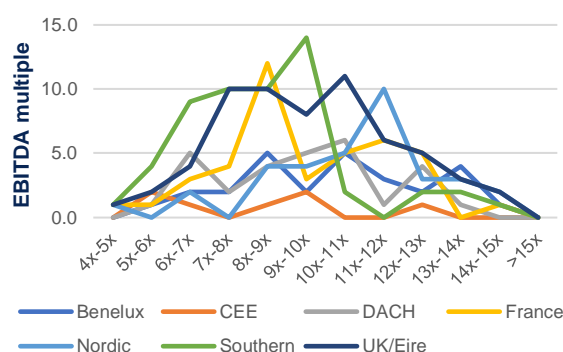
The deals market was substantially impacted in Q2 2020 as deals in their infancy stages were put on hold to wait out the unfolding situation across the globe however, Q3 2020 marked a rebound in activity with record levels of deal completions. High-quality businesses in resilient sectors such as healthcare/pharma services and TMT were highly sought after by the European PE market as the globe emerged from lockdown and PE looked to deploy capital, increasing valuations in these thriving sectors.

In Q3 2020, average multiples paid in PE-backed transactions throughout Europe increased slightly when compared with the previous quarter and the same quarter in 2019, with deal volume increasing 58% compared to the previous quarter.

The UK and Ireland was the hottest region for multiples in the quarter, also seeing the largest increase in valuations of any region, up 4% against Q2 2020 and against the same quarter in 2019, bringing average valuations in the region above 11x. The UK also experienced a substantial increase deal volume of 80%, although volume remains lower than the same period in 2019 and average pre-COVID activity levels.

France saw one of the largest increases in valuations during the quarter, up 2% against Q2 2020 and up 8% in comparison to the same quarter in 2019 bringing the valuations above 11x. France also experienced a 70% increase in deal volume in comparison to Q2 2020 bringing the volume average close to pre-COVID activity levels.

LTM multiples distribution by region



The third hottest region in Europe for the quarter was the Nordic region, despite no change in valuations, deal volume increased by 83% in comparison to the previous quarter and a 74% increase in comparison to the same period in 2019. For the fifth quarter in a row, the Nordic region has seen multiples of over 11x. A similar valuation trend was experienced in the Southern region however, average valuations were sub 10x for the sixth quarter in a row. Deal volumes in the region increased by 213% in comparison to the previous quarter and reached higher levels than pre-COVID activity levels.

The DACH region experienced an increase in valuations and deal volume, with a 1% increase in average valuations in Q3 2020 representing a 4% increase in comparison to the same quarter in 2019. The region also experienced the greatest volume of transactions in the quarter, a trend also seen in Q2 2020.



European overview

The TMT sector experienced the largest number of PE-backed transactions for the third quarter in a row as the resilience of the sector continues to attract interest from PE looking to deploy capital. Despite a 2% decrease in valuations compared to the preceding quarter, valuations have remained in line with the same period in 2019.

The hottest sector for the quarter in terms of valuations was financial services, with valuations increasing 8% in comparison to the previous quarter and 15% when compared to Q3 2019. Deal volume in the sector also increased by 40% although down on the same period in 2019.

The second hottest sector for the quarter in terms of valuation was healthcare, with valuations for Q3 2020 exceeding 11x for the first time in more six quarters demonstrating the value of healthcare assets in the current climate. The volume of deals increased 14% on the previous quarter, a trend expected continue into the final quarter of 2020.

The food and beverage sector experienced a substantial increase in deal volumes, bringing activity levels in line with pre-COVID levels. The sector also experienced an 8% increase in valuations compared to the previous quarter, increasing valuations over 10x for the first time in over six quarters, a 10% increase on the same period in 2019.

Industrials and chemicals and business services both experienced increases in deal volumes in the quarter, 111% and 40% respectively. However, valuations decreased 3% in industrials and chemicals whilst business services experienced a 6% increase. This was the fourth quarter in a row that business services endured an increase in average multiples paid in PE-backed transactions.

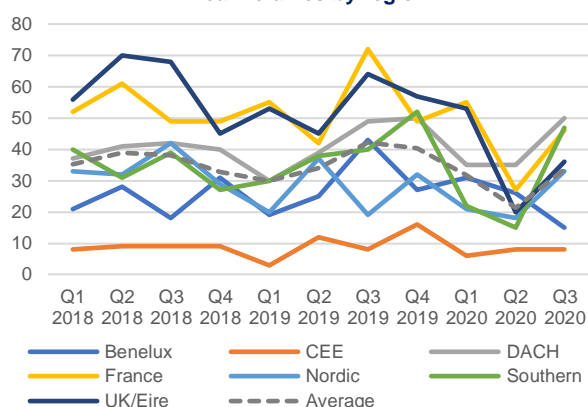
Averages over last twelve months

Start 01/07/18 01/10/18 01/01/19 01/04/19 01/07/19 01/10/19
End 01/07/19 01/10/19 01/01/20 01/04/20 01/07/20 01/10/20

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Benelux	9.3	9.4	9.9	9.8	10.4	10.5
CEE	9.0	9.0	8.5	8.3	8.6	8.3
DACH	9.9	9.9	10.5	10.8	10.2	10.3
France	10.3	10.3	10.6	10.4	10.9	11.1
Nordic	11.2	11.0	11.5	11.2	11.0	11.0
Southern	9.4	9.6	9.5	9.5	9.4	9.7
UK/Eire	10.9	10.8	10.7	10.8	10.8	11.2
Europe	10.2	10.2	10.3	10.3	10.4	10.5

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

Deal volumes by region



In terms of deal size, and in line with most quarters historically, the largest volume of deals was in the sub €50m category. Conversely, the smallest volume of deals was experienced in the >€1bn range.

For the fifth quarter in a row, the richest valuations were seen in transactions >€1bn, increasing 8% on the previous quarter. The second hottest valuations were seen in the €250m-€500m range which saw an increase of 15% on the previous quarter and 30% on the same period in 2019.

Deals in the €500m-€1bn range continued to show increasing valuations however only up 1% when compared to the previous quarter and down 6% in comparison to the same quarter in 2019.

In this quarter, the Multiples Heatmap focuses on trends seen in Sweden where a lockdown has not yet been enforced by the Government and the TMT sector where deal activity levels remain high.

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TMT insights

Dealflow in the TMT sector has continued to heat up in the second half of 2020 amid a flight to quality and growing bullishness from PE sponsors, with high-teens multiples showing no signs of climbing back down.

The general uptick in European private equity activity from July onwards – as most countries emerged from lockdown and GPs started to pivot away from crisis mode and looked at deploying again – resulted in healthy dealflow boosts for stalwart sectors such as industrials and consumer goods & services.

But one sector in particular continued to attract the lion's share of interest: PE-backed buyouts in the TMT sector jumped by 61% between Q2 and Q3 in volume terms, while their aggregate value more than tripled thanks to the return of mega-deals, according to Unquote Data. The sector has been home to 27.4% of all buyouts across Europe since April this year, compared with just 19% if looking at the 2018-2019 period. In the UK, more specifically, this market share has now exceeded 31% since the outbreak of the coronavirus pandemic, making it the most active sector for PE buyouts.

Standout deals in the space in recent weeks have included EQT selling a minority stake in Sweden-based enterprise software provider IFS to US private equity firm TA Associates, in a deal valuing the company in excess of €3bn. EQT, on the buy-side this time, also acquired Spanish online property marketplace Idealista from Apax Partners for €1.3bn - around 26x its EBITDA of approximately €50m. Over in France, Silver Lake wholly acquired payroll and HR software business Silae in its first European acquisition of 2020, an all-equity deal reportedly valued at more than €500m.

"Right now, there is a better supply of quality assets when comparing with the end of 2019 and the first quarter of 2020," says Carl Houghton, partner and head of the TMT team at Clearwater International. "A number of processes that stalled in the early stages of the first lockdown have come back to market too, with some still waiting to be finalised. But there is still a relative under-supply of assets compared with the amount of capital waiting to be deployed by PE."

This eagerness to deploy the vast amounts of dry powder amassed prior to the crisis, coupled with most mainstream GPs only focusing on the most resilient assets given the uncertain path to recovery, means

that competition is fiercer than ever. "When there is a flight to quality, buyers will compete very hard, as is evident when looking at some recent processes where parties will move in to finalise a deal within a matter of days," Houghton says. "Especially for tech assets – where a lot of that quality dealflow is sitting at the moment – PE players are clearly aiming to bid hard and be deliverable straight away, because they know everyone else (including PE-backed corporates on the hunt for acquisitions) will be aggressive too."

Processes also tend to be more focused, Houghton adds, eschewing the traditional and time-consuming multi-round processes with extended vendor due diligence: "These top-shelf assets are packaged early on to be easily transacted so all the data is ready, and the list of potential suitors is kept short."

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TMT insights

Unsurprisingly, TMT therefore remained near the top of the average entry multiples table across Europe in Q3, as the attraction of resilience tends to outweigh potential qualms about future multiple arbitrage. Says Houghton: “The saying that “15x is the new 10x” is certainly still valid for good quality TMT assets, and I don’t think it’s unjustified either – although it’s not valid for every business out there. You can recover from having paid a couple of turns of EBITDA too many for the right asset. What you can’t recover from is the business just falling through the floor, and TMT has by and large been well insulated from that.”

Furthermore, and unlike what is seen in other sectors, the bifurcation within TMT assets in terms of quality is still fairly narrow, further fuelling healthy multiples across the board. While a small proportion of assets will have been hit hard by the wider shock, it remains a very small number overall. “You may see some specialist software suppliers serving the automotive industry, for example, implementing subscription holidays for their clients to cope – but again, it will be a small minority, and the effect will be temporary,” adds Houghton.

More importantly, and while assets in the consumer or industrial sectors remain at the mercy of further damaging lockdown as Europe grapples with a fierce second wave of the pandemic, the future looks much brighter for TMT as a whole. “SaaS businesses in general have displayed great resilience based on their high level of recurring revenue,” Houghton says. “The products deliver such high ROI for clients that there will be high net revenue retention in most cases, compensating for any decrease in new business.

“Even for project-driven business models, the growth in demand for digital transformation is off the scale. And sub-trends that were hot before are even hotter now, such as HR software focusing on wellbeing in the workplace. A lot of these trends were in play before COVID-19, but it has certainly accelerated the pace and played into the hands of these businesses.”

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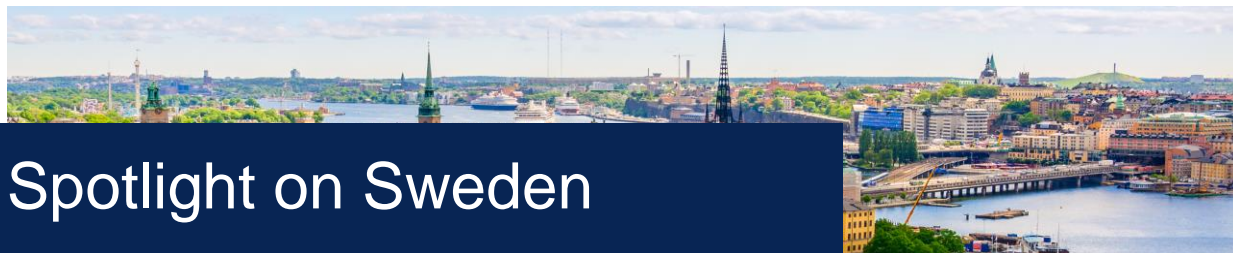


Carl Houghton
Head of TMT, UK,
Clearwater International



Greg Gille
Editor, Unquote





Spotlight on Sweden

Sweden saw strong levels of dealflow in Q3, but limited access for cross-border buyers and scarcer debt financing continue to pose challenges, says Clearwater International's Managing Partner Tomas Almgren.

Sweden was one of the most active regions in Europe in terms of private equity dealflow in the third quarter of 2020, with the impact of the coronavirus quite low and valuations of some companies on par with pre-pandemic levels. Tomas Almgren, Clearwater managing partner in Sweden, says: "the overall M&A market is doing very well and what we're seeing is record levels of transactions, especially because of the suppressed demand from March, April, and May." One of these deals was the sale of a majority stake in Linköping-based company Axentia to PE firm Adelis. The company, a developer and supplier of display systems for public transport, was advised by Clearwater on the transaction.

Sweden was one of the very few countries not to undergo a government-imposed national lockdown, allowing businesses to carry on as usual. Even so, some sectors have clearly outperformed others, and this disparity continued in Q3. Almgren says: "We're seeing businesses in the consumer sector and e-commerce doing extremely well. Trends such as online shopping have been around for a while but are now seeing a great acceleration. Some niche companies have also remained resilient. Software companies are also performing well, but technology isn't as dominant in the Swedish industry as it is in some other countries." Meanwhile, segments where PE firms remain cautious include hospitality, physical retail, leisure and industrials. But Almgren is optimistic, citing

auto giants Volvo and Scania, which shut down operations completely earlier in the pandemic but have now ramped up operations.

The third quarter did not reveal a material impact on valuations of Swedish companies, either positive or negative, with resilient companies continuing to fetch prices as high as before. Almgren says: "Valuations have not climbed, because prices for Nordic companies were already so high compared to other regions. But for robust companies that are doing well, the multiples are as favourable as prior to the pandemic." Conversely, it is unclear in which sectors the multiples are lower, Almgren adds: "We don't know this yet because companies in sectors with lower multiples won't come forward at this time unless they're distressed."

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Spotlight on Sweden

An active buy-and-build strategy remained a strong trend in Sweden in Q3. Almgren says: "One of the biggest trends in the Swedish market for a few years has been consolidation. In HVAC for example, this has been going on for quite a few years and will continue." Recent deals include PE firm Axcel's acquisition and merger of three installation companies – Ventab, Ventilationsprojekt and Installationsbolaget – to create Currentum, a specialist in heating, ventilation, health and safety, sprinkler systems and building automation, which will be in competition with other major players in the market, including Triton-backed Assemblin, and listed companies Bravida and Instalco.

Challenges

Not all GPs are experiencing a smooth deal-making process, though. Restrictions on travel faced by GPs travelling to Sweden have made it difficult for buyers outside the EU to be competitive in local sale processes. Access to debt financing has also been a problem for some, as banks have become more careful with lending to buyout funds. However, says Almgren, as bank financing becomes difficult to source, private debt funds and bond financing have become more attractive and are increasingly filling in the funding gap.

Companies in Sweden have so far escaped tough restrictions resulting from the pandemic, but this could change going forward, resulting in more distressed companies and a rise in special situation deals. Almgren says: "If the spread of the virus gets worse and we have a European style lockdown, I think that could cause a rise in special situations. I also think more companies will find themselves in financial difficulties in February when they need to repay deferred taxes to the Government."

But with a busy pipeline, Almgren is confident that the increased deal activity in Sweden will continue and extend into 2021. Going forward, he expects to see more transactions in areas with disruptive business models that benefit from structural changes accelerated by the COVID-19 pandemic.



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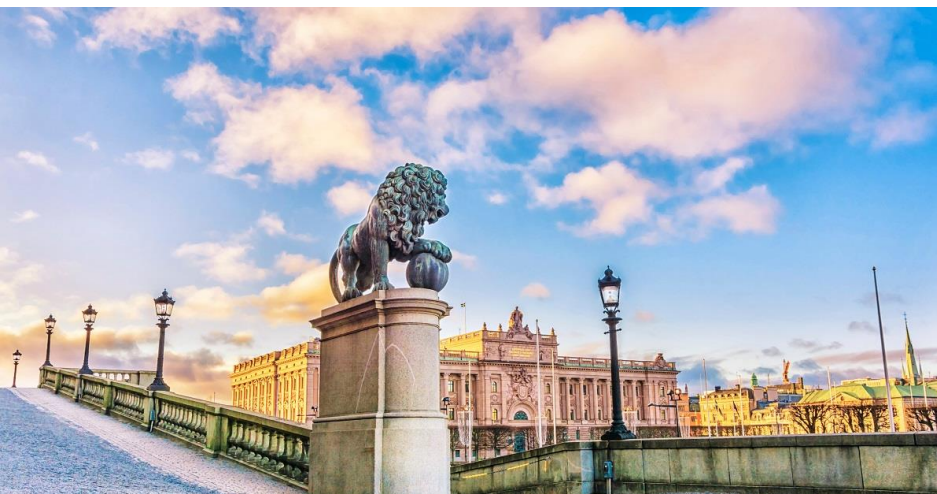
Tomas Almgren

Managing Partner, Sweden,
Clearwater International































Eliza Punshi

Reporter, Unquote



Selected Clearwater International private equity transactions

  naxicap <small>PARTNERS</small> acquired  from ABENEX <small>CAPITAL</small> Buy-side Undisclosed	   WATERLAND <small>PRIVATE EQUITY INVESTMENTS</small> raised finance to support the acquisition of Leupold Group Acquisition finance Undisclosed	  inflexion <small>PRIVATE EQUITY</small> on its majority investment in  Buy-side Undisclosed	   Raised a banking facilities to refinance its existing debts and finance its growth Refinancing Undisclosed
   raised debt finance from  to support the acquisition of  Acquisition finance Undisclosed	   sold majority stake to verdane Sell-side Undisclosed	  TRENTHIM <small>TELL YOUR STORY</small> sold to  Sell-side Undisclosed	    acquired  Buy-side Undisclosed


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




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