Business Valuation INTERNATIONAL

AWARDS AND RECOGNITIONS

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INTERNATIONAL CERTIFIED VALUATION SPECIALISTS

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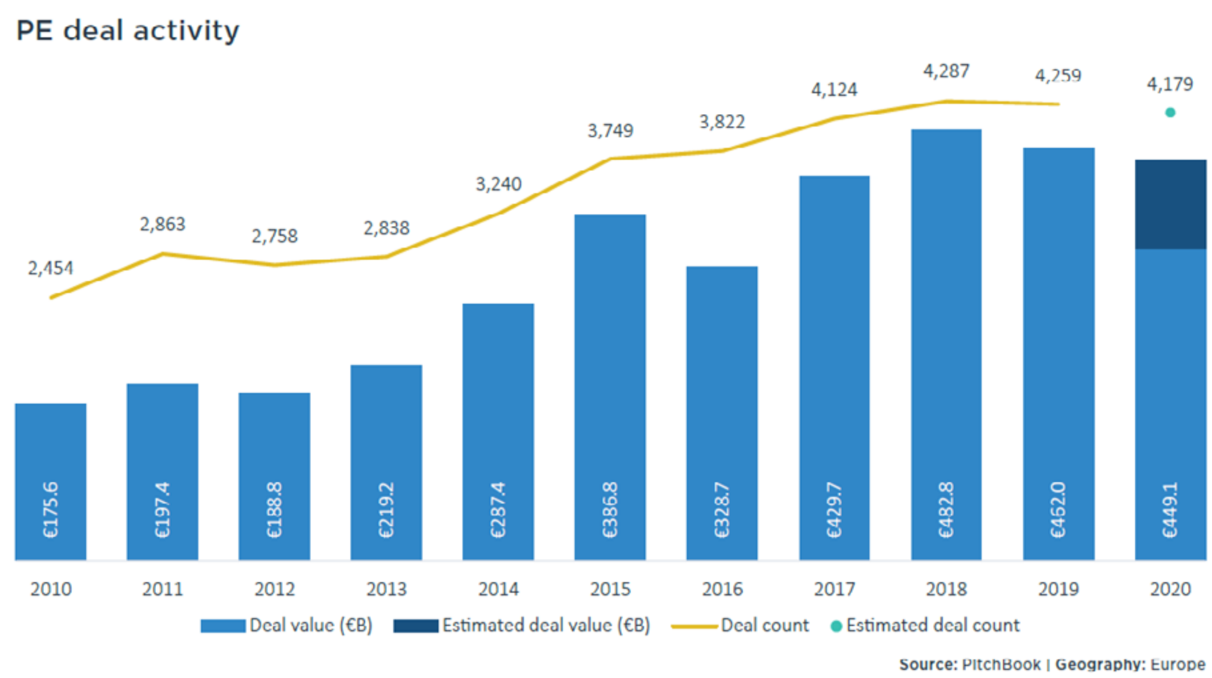
Index

1 – European Private Equity 2020

1.1 – PE Dealmaking Environment 2020

- **European PE deal activity in 2020 proved extremely robust and resilient given the COVID-19 crisis.**
- **After capsizing in Q2 2020, PE deal activity came booming back in H2 2020 to record its third-highest annual value in over a decade. Meanwhile, quarterly deal volume hit a fresh peak in Q4 2020.**
- **2020 European PE fundraising experienced an extremely strong year, with capital raised hitting its second-highest value ever, though fund counts dipped to a new trough.**
- **European PE exit activity was lethargic in 2020, as sponsors waited for a more sanguine environment to offload assets.**



1.2 – Drivers Behind the Scene

A multitude of factors in 2020 converged to aid the razor-sharp recovery in PE deal activity:

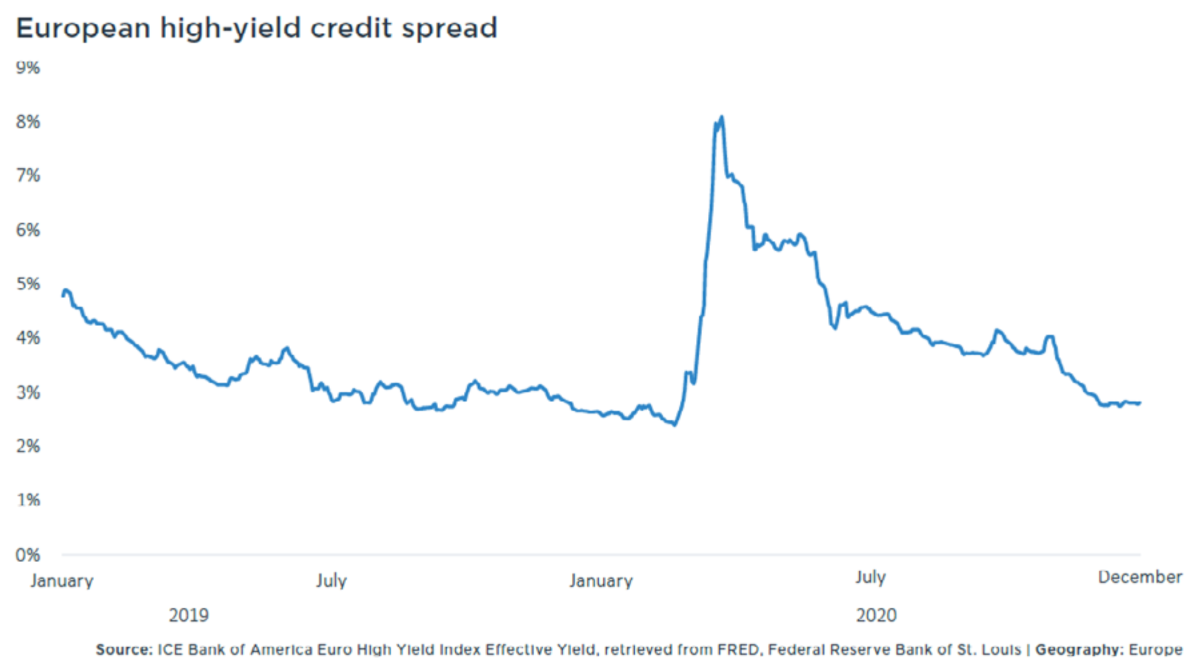
First: European governments and central banks expeditiously executed an unprecedented fiscal-monetary cocktail worth trillions of euros. This helped LPs stay largely insulated from the denominator effect and forced investors into higher-risk assets, which helped foster a remarkable recovery in leveraged lending markets as institutional investors' appetite for higher-yielding leveraged loans and high-yield bonds soared.

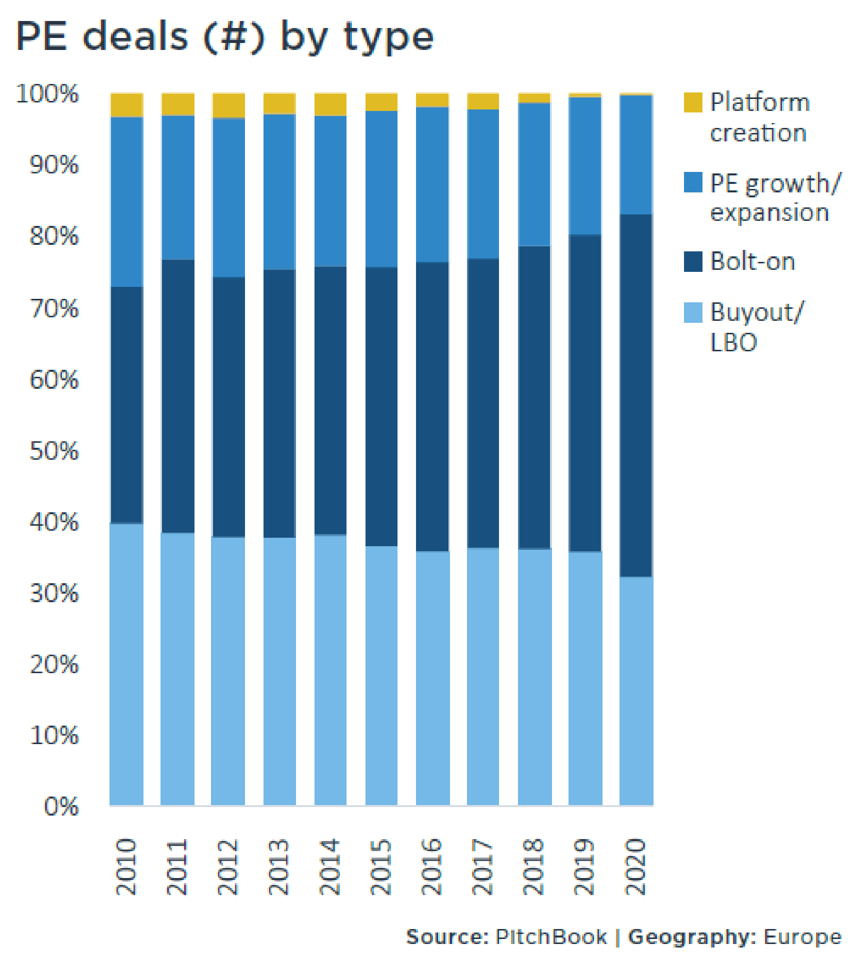
Second: The €294.0 billion in European PE dry powder on hand and the start of mass inoculations across the continent also substantially contributed to the deals recovery.

Third: Frothy valuations of pandemic-proof assets meant there were willing sellers, and a European inflation rate stuck at or below zero has kept interest rates depressed, helping to fuel cheap debt—arguably the lifeblood of PE.

Fourth: The frequent use of less risky and cheaper bolt-on acquisitions in acquiring competitors and executing upon sector rollups accounted for a new record of 61.4% of all buyouts.

The combination of these factors considerably helped deal activity roar back from its second quarter lows and has created a favourable environment for PE dealmaking going into 2021.



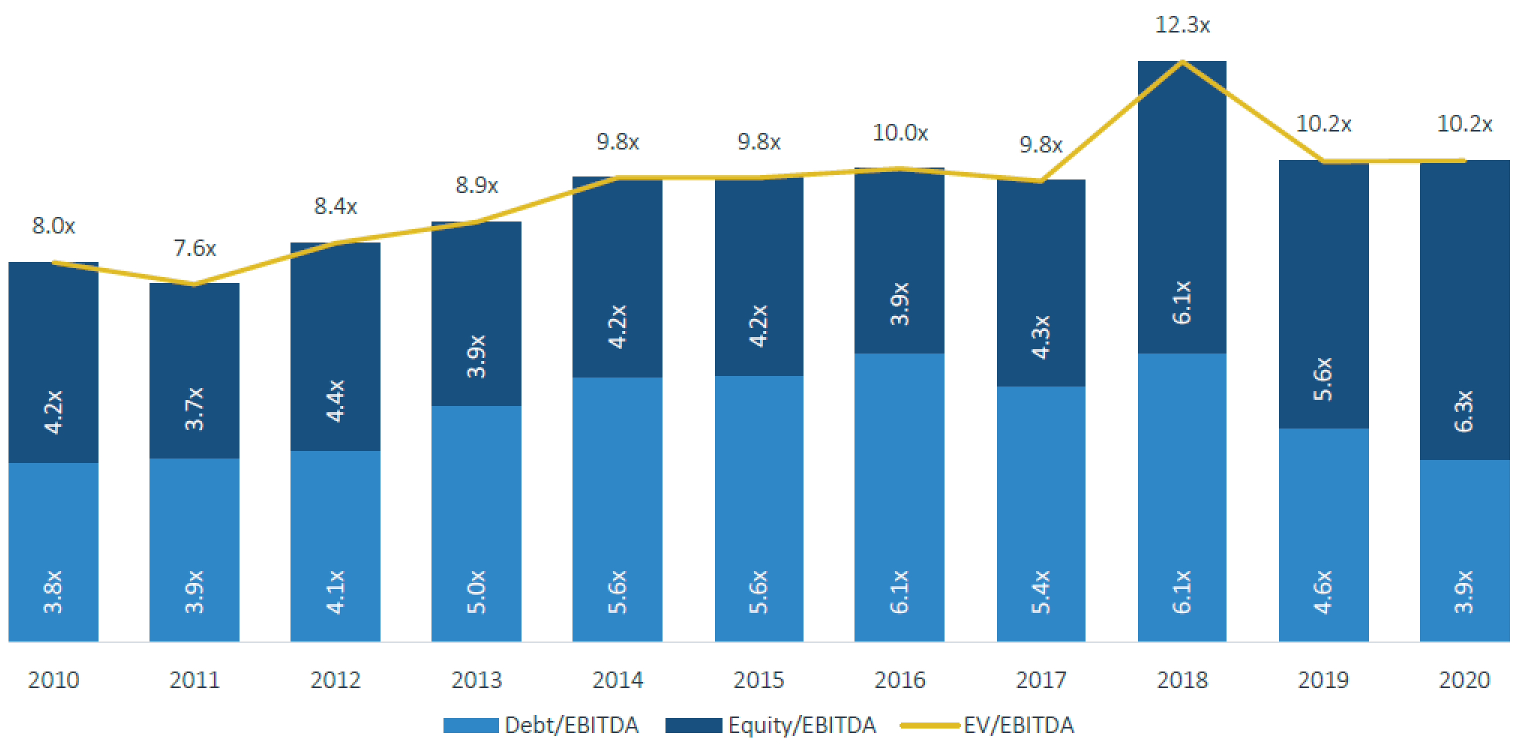


1.3 – Valuations

Despite the pandemic and the European Stoxx 600 index closing down 3.8% in 2020, the median EV/EBITDA buyout multiple remained unchanged from 2019 at 10.2x. Sturdy business models that have managed to sustain revenues, lower debt, and expand margins through 2020 have powered through sell-side processes. With fierce competition and elevated dry powder levels on hand, GPs have been willing to pay premiums for such companies, resulting in frothy valuations. Likewise, the syndicated leveraged loan and high-yield bond market has been willing to lend to such entities.

Conversely, cyclical or assets adversely affected by the pandemic have not actively traded, with dealmakers wary of selecting non-performers or fire-sales, as well as leveraged finance investors shying away from such assets. 2020 also saw the debt/equity composition mix in the buyout multiple change, with more equity and less leverage being injected into deals. The equity/EBITDA multiple increased from 5.6x in 2019 to 6.3x in 2020, while the debt/EBITDA multiple lowered from 4.6x in 2019 to 3.9x in 2020.

Median EV/EBITDA buyout multiples



Source: PitchBook | **Geography:** Europe

2 – Private Equity Investment Predictions for 2021

2.1 – European PE Deal Activity Forecast 2021

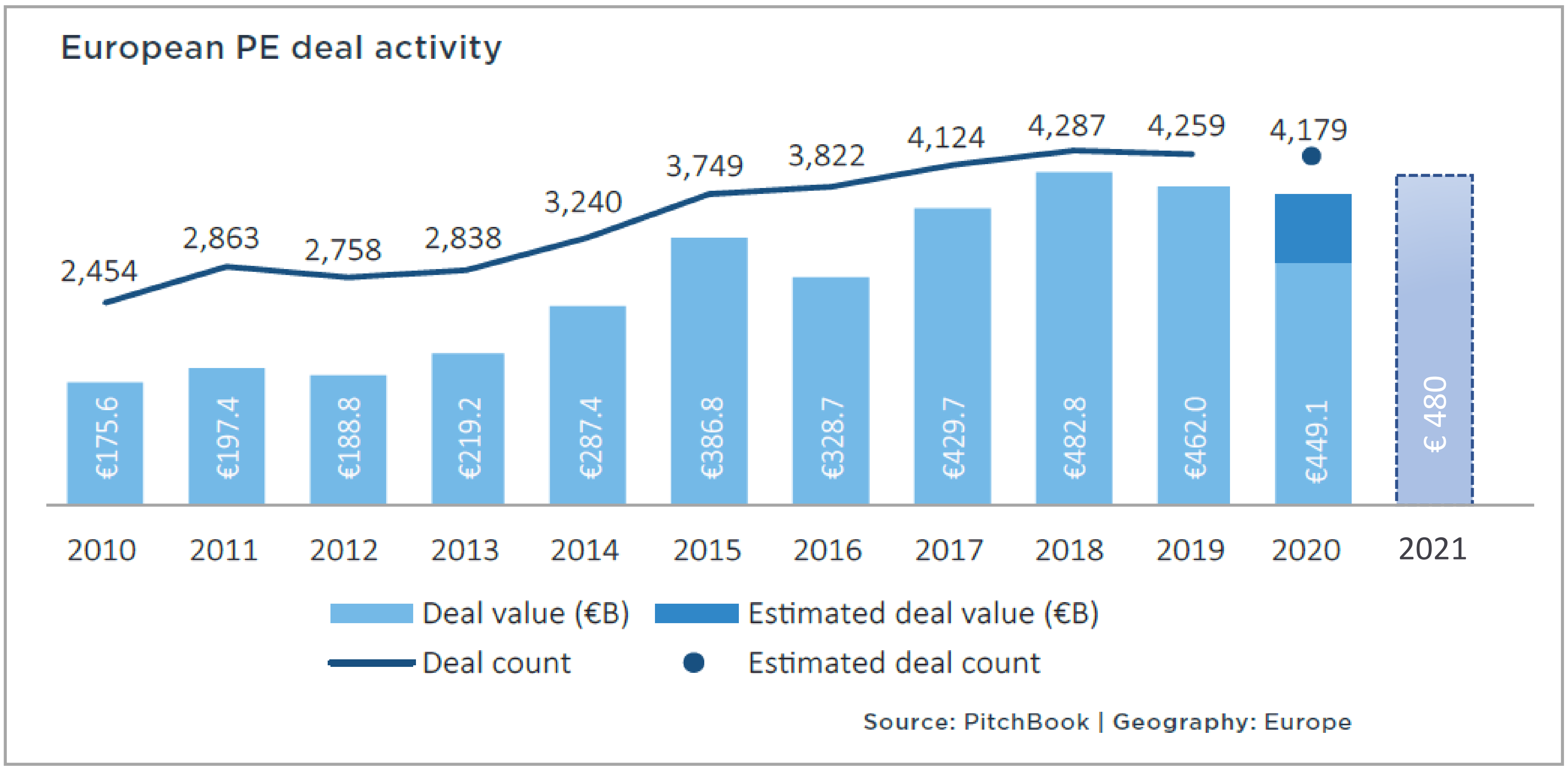
The bulk of 2021 will be a year of reopening not lockdowns, recovery not recession, risk on not risk-off, and vaccine not virus. While sponsors focused on liquid markets and portfolio companies in Phase One and Phase Two of the COVID-19 crisis, respectively, the focus in 2021 will be on regular way control deals.

Many managers have stated their deal pipelines across all strategies is particularly robust going into 2021, and recent GP surveys indicate deploying capital in 2021 is the main priority for managers.

With interest rates at all-time lows, tepid inflation, and record dry powder levels on hand, we expect dealmakers to act with cautious aggression. There are no signs of slowing fiscal and monetary support, and the recovery in the leverage finance markets has been remarkable, illustrated by institutional investors' soaring demand for higher-yielding leveraged loans and high-yield bonds.

When analysing previous downturns, it took managers around one year post-crisis to deploy capital at scale, and we expect outsized figures in 2021 to reflect that trend. Finally, pent-up demand from sponsors that were not able to hit deal volume and capital deployment targets in 2020 will also contribute.

Managers will likely transact more as opportunities for industry consolidation across multiple sectors such as financial services, energy, healthcare and TMT occur. We believe managers will utilize these opportunities to create European champions; drive scale, margins, and distribution channels; and seek to survive the market volatility. The combination of these factors almost creates the perfect environment for PE deal making in 2021.

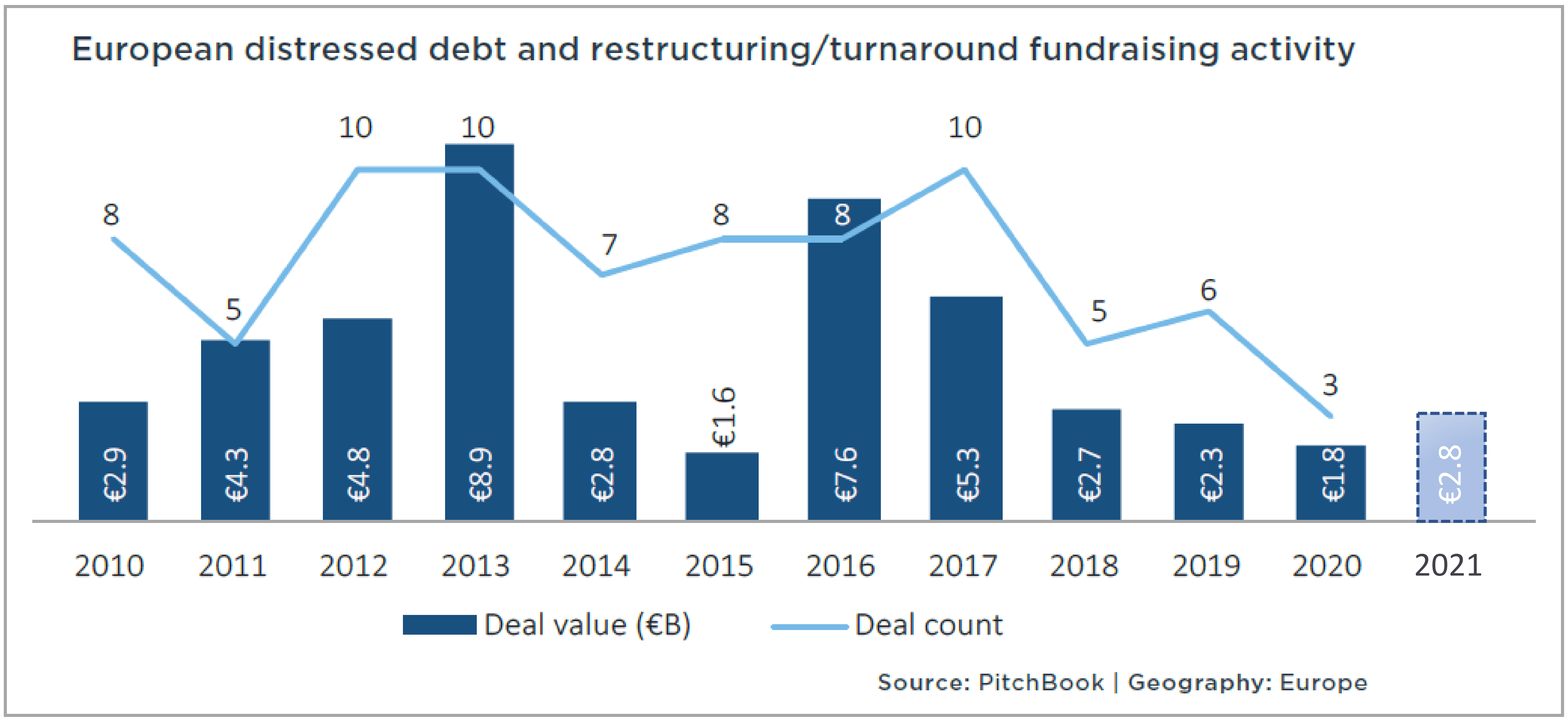


2.2 – European PE Turnaround Deal Activity Forecast 2021

During COVID-19 crisis, fiscal and monetary support from global governments and central banks has kept distressed activity depressed and distressed opportunities typically take time to play out and will likely pick up in 2021. Bankruptcies, defaults and downgrades are expected to increase, especially in the small to mid-sized enterprise (SMEs).

Many companies that were struggling pre-pandemic have been kept afloat by extremely generous government fiscal programmes such as furlough schemes, grants, and tax holidays. In addition, unsustainable leverage levels and weak balance sheets going into the pandemic will contribute. Further, less access to liquidity and fewer exit opportunities to corporates will add to this spike.

Once the cheap, predictable, and ample access to liquidity dries up, distressed investing will rise substantially, pushing GPs to close more distressed funds in 2021 due to robust LP demand.



3 – The Importance of Robust Valuations

While higher valuations often imply higher risk and lead to more selective dealmaking, M&A is currently trending towards greater competition for premium assets. Fierce demand—particularly for digital and technology companies or for companies with transformational and disruptive industry impact—is creating an urgency to win at almost any cost. The speed of dealmaking has also increased.

Competition for assets can get so intense that some buyers may be tempted to shortcut traditional steps in the dealmaking process or even jump the auction process with pre-emptive bids. Whether that means spending less time on due diligence, accepting target projections at face value or agreeing to deal terms they may not otherwise have signed off on, these trade-offs to get a deal create risk. In a hot market for companies with technology-oriented, innovative or disruptive business models, companies should instead focus on honing their approach to win these highly sought-after, mission-critical deals.

Among other things, they need to challenge pre-COVID-19 assumptions about strategic fit, value creation and organizational compatibility to confirm the deal rationale. Boards and investment committees need to understand the impact of COVID-19 and ESG considerations for any transaction if they are to create value in the long term.

From a valuation perspective, dealmakers need to consider how COVID-19 has affected the target's financial statements to establish a reliable baseline EBITDA for valuation purposes. But assessing a target's financial projections is even more difficult than assessing the impact of COVID-19 on historical earnings.

The good news is that disciplined acquirers and investors are requesting advanced valuations, including detailed scenario and stochastic analyses to address the multitude of macroeconomic, market, commercial, technological operational and financial drivers.

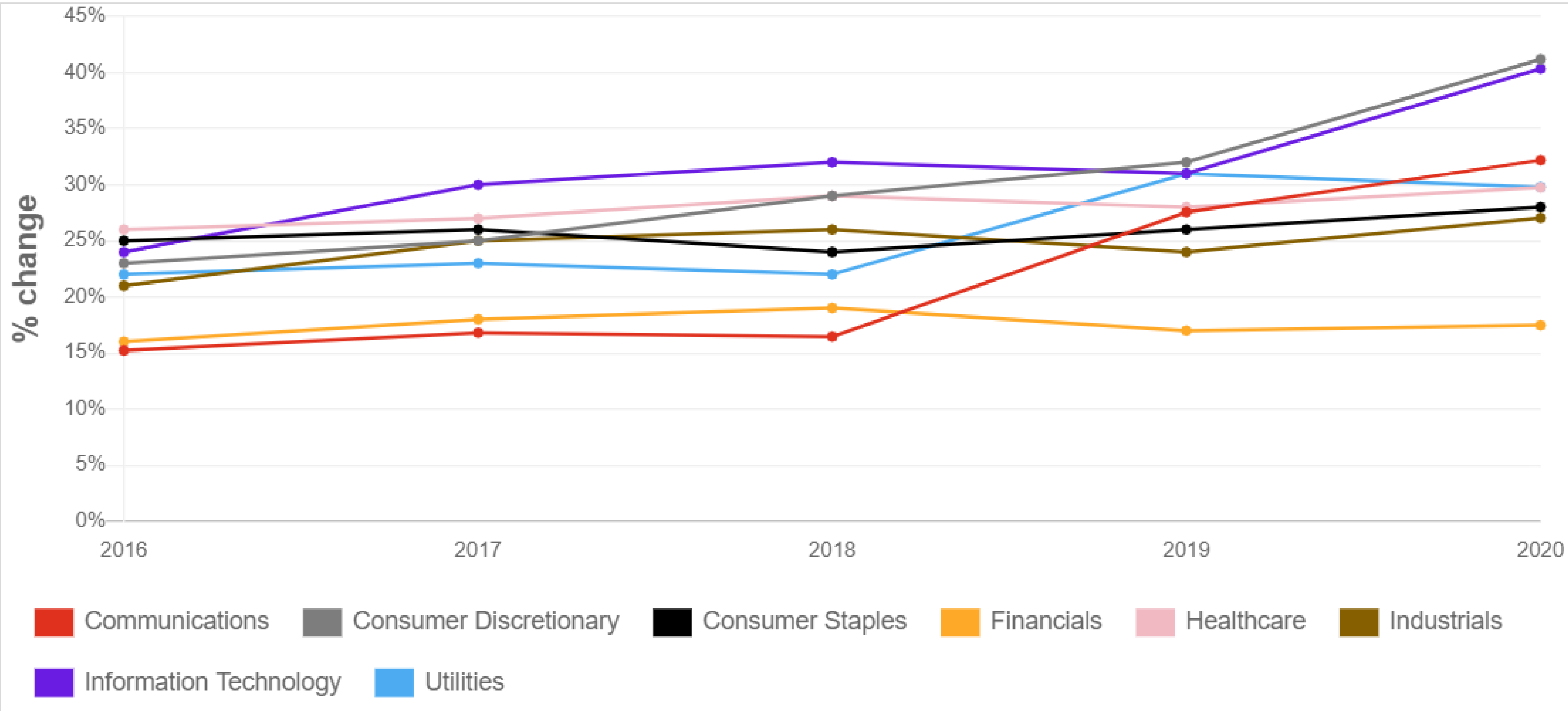
Moreover, paying a high price on M&A transactions, even a premium over currently traded market values, doesn't necessarily mean overpaying—as long as the acquirer has a clearly defined strategy for value creation.

In addition to considering financial sources of value, dealmakers are increasingly attributing value to non-traditional sources such as resilience and purpose. The COVID-19 crisis clearly demonstrated the value of a resilient supply chain, for example. Greater commitment to ESG factors is also changing the way businesses are valued and their attractiveness to investors.

Elevated dry powder levels drive higher valuations and good businesses require high multiples. As a consequence, robust valuations and value creation plans are now more relevant than ever for successful M&A deals.

BVint Advance Valuations

- To identify the value drivers of a business in the long term.
- To measure the impact of the risks affecting the company in the mid and long term.
- To mitigate the risk and develop a strategic value creation plan.
- To make sure the company's strategy is capturing the best opportunities the markets are offering.
- To assess the impact of each driver on the value of the company.



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