
BUY AND BUILD



THE EUROPEAN OPPORTUNITY

Enabling growth, managing risk

The deal multiples paid by private equity buyers have hit record levels in 2018. Fundraising in the last few years has been at historically high levels. Low interest rates have been driving Limited Partners (LPs) to invest capital into the asset class that, albeit riskier and less liquid, is currently presenting higher returns than public investments.

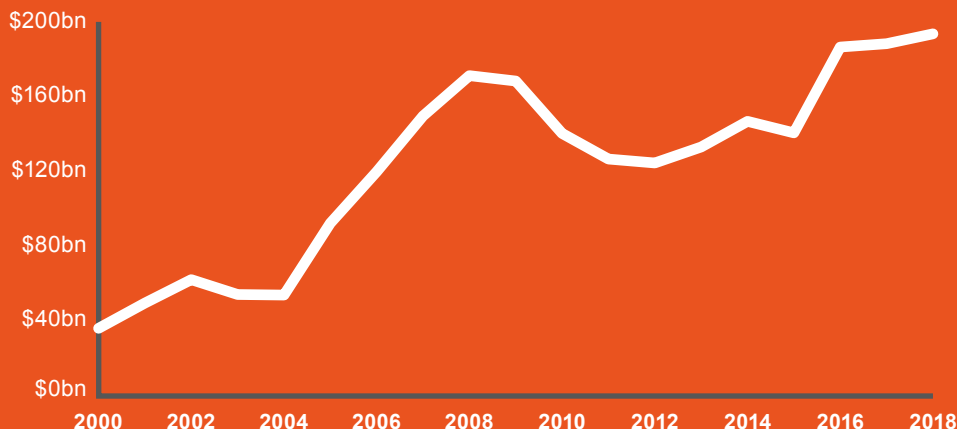
This has led to a record level of dry powder in the market and to a large increase in M&A activity.

Competition for assets has hit new highs, with enterprise value (EV) multiples currently at 9.5x EBITDA.

Increased competition and prices have led General Partners (GPs) to look for opportunities in sectors and geographies that they normally would not. PE activity across Europe reached new records in 2017 and does not seem ready to slow down. The question for GPs is what to do next?

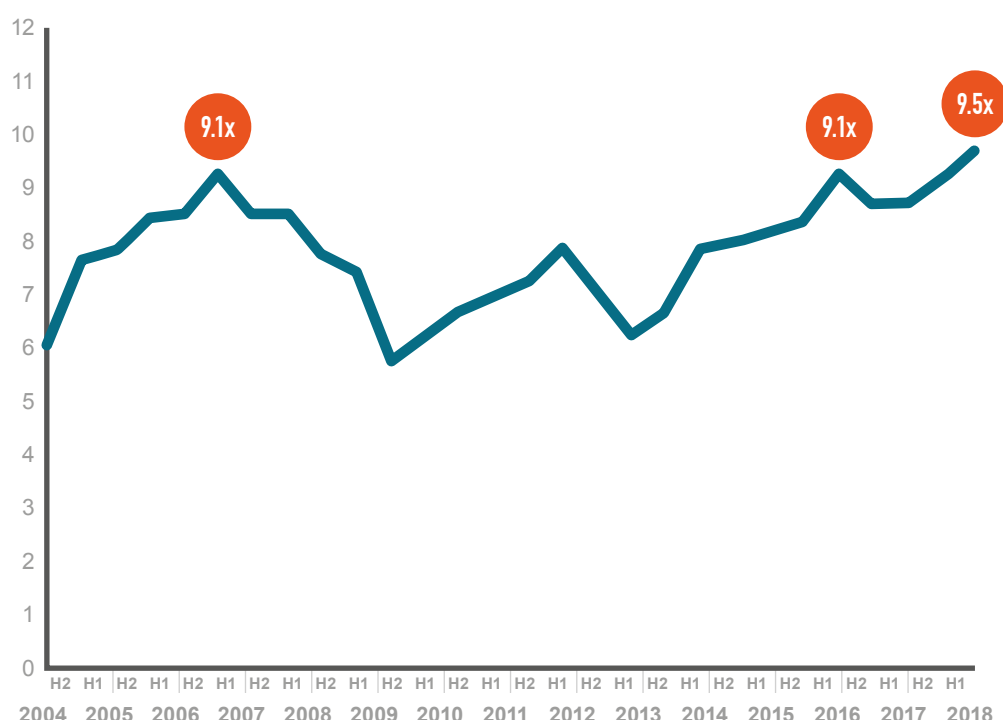
THE EUROPEAN PRIVATE EQUITY MARKET IN 2018

Evolution of dry powder,¹ Europe



Note: 1) As at 01/08/2018. Source: Preqin

Median European EV/EBITDA M&A multiples,^{1,2} Europe



Note: 1) Median of publicly traded and privately held companies. 2) As at 30/07/2018
Source: Epsilon Research, Argos Mid-Market Index.

“

The number of private equity funds has reached an all-time high as demand from institutional investors for the sector grows in a low interest rate environment.

Financial Times

Buy and Build strategies have historically shown a higher return on capital invested than standalone deals. This is partly explained by multiple arbitrage, in which platforms transact at a higher price than bolt-ons.

Increased size can also drive up the multiple of the platform itself. As the former CFO of Scientific Group claims: “Small private companies can be acquired for 4-6 times EBITDA. If it’s something very particular, such as where you have unique testing

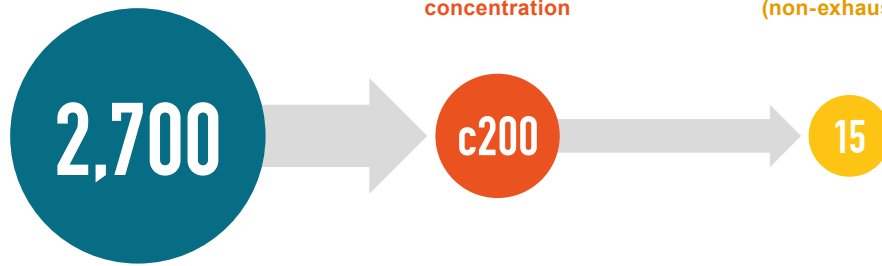
technology, you’re going to pay higher, maybe 8-10 times. However, when these companies are publicly-traded, they are then at 12-15 times and there’s a very significant EBITDA multiple arbitrage.”

According to Silverfleet Capital, this type of strategy has increasingly been adopted in the M&A market in recent years. Given Buy and Build strategies have been a large part of GPs’ recent success, the question therefore becomes what Buy and Build to do next?

Sectors initially analysed by
CIL across all geographies

Potential Buy and
Build opportunities
based on size and
concentration

Opportunities
across Europe
shown in this paper
(non-exhaustive)



AN ATTRACTIVE BUY AND BUILD SECTOR

Size, concentration and viability – the 3 key elements

Methodology

CIL has used its experience and expertise to review each of the sectors resulting from our initial analysis. This allowed us to assess the opportunity for Buy and Build strategies in these sectors and remove those which offered less opportunity for investors.

Our analysis is focused on 5 European regions – UK & Ireland, Germany, France, Nordics and Iberia. To identify attractive opportunities for a Buy and Build strategy, we looked at 3 key factors.

1 Size

Target sectors need to be large enough to be attractive for a PE investor. However, they cannot be so large that acquiring a meaningful market share would be too costly, thus diminishing potential synergies and making a Buy and Build strategy impractical.

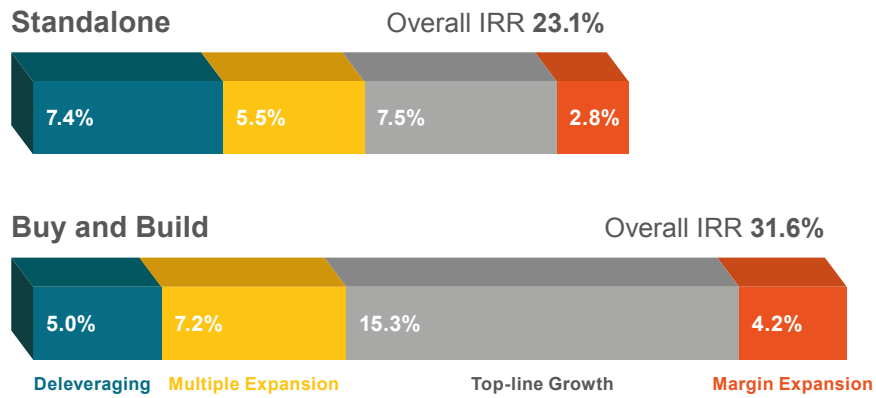
2 Concentration

The market must have a viable platform for an LP to invest in (i.e. the leading players in the market need to have a minimum scale) but at the same time, the concentration of the market leaders needs to be small enough that a challenger can be built. Furthermore, a number of viable bolt-ons also needs to exist (i.e. a long, fragmented tail of companies).

3 Viability

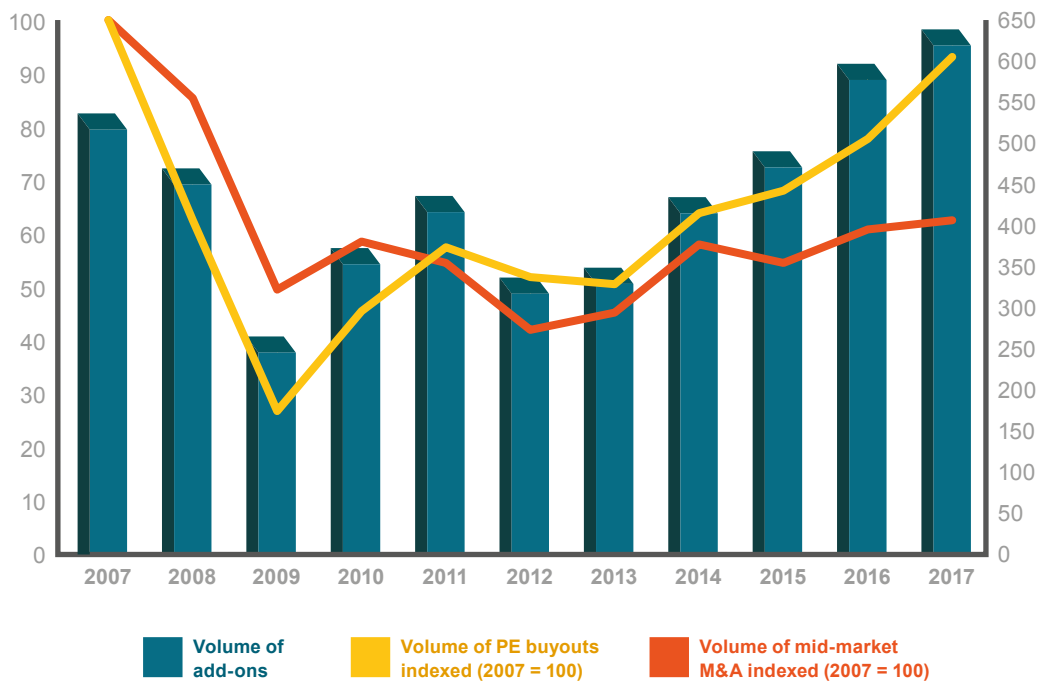
Some sectors can have both the suitable size and concentration and still not be ideal targets for a Buy and Build strategy. The restaurant market, for example, is large and fragmented, but acquisition of share in the market brings very limited synergies to the owners. Successful PE investments in the sector have typically been built around expanding footprint and brands. Aside from synergies, Buy and Build strategies can also be made viable by barriers to organic growth such as economies of scale (e.g. vets), site locations (e.g. caravan parks, which are difficult to replicate due to size and permits) and customer loyalty (e.g. dentists).

IRR in Buy and Build deals globally 1998-2012

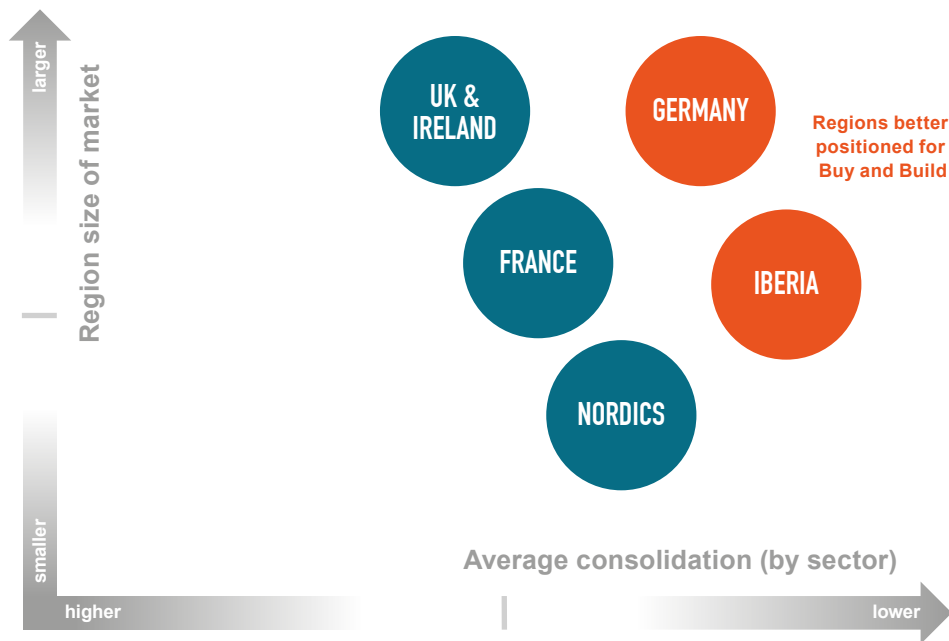


Source: HHL-BCG research, European Venture Capital Journal

Annual volume of add-ons in Europe



Source: Silverfleet Capital, Mergermarket



PAN-EUROPEAN BUY AND BUILD

There are multiple opportunities across Europe for Buy and Builds

All the regions reviewed by CIL present interesting opportunities for Buy and Build activity, with Iberia and Germany currently displaying the most attractive characteristics. Both regions have a number of companies that are still family-owned, either due to a lack of owner willingness to sell, regulation, or to a less developed private equity ecosystem, which may be less willing to pay prices for those assets compared to other geographies. Both regions have sectors with opportunities

for consolidation that have been tried and successfully completed in other geographies.

The Nordic region also has space for further consolidation, but its smaller size makes it relatively less attractive when compared to Iberia and Germany. GPs looking to invest in the region will need to make sure that the opportunities pursued have the required size to succeed.

Both the UK & Ireland and France are large markets with

well-established private equity ecosystems. Both regions still present significant opportunities where consolidation levels are lower (albeit potentially higher than in other geographies). GPs seeking the lower risk associated with larger markets may want to stay in these geographies, although it is likely that larger returns can be found elsewhere by applying the tactics and knowledge that have been successful here.



PRINTING CASE STUDY

Pan-European consolidation taking place

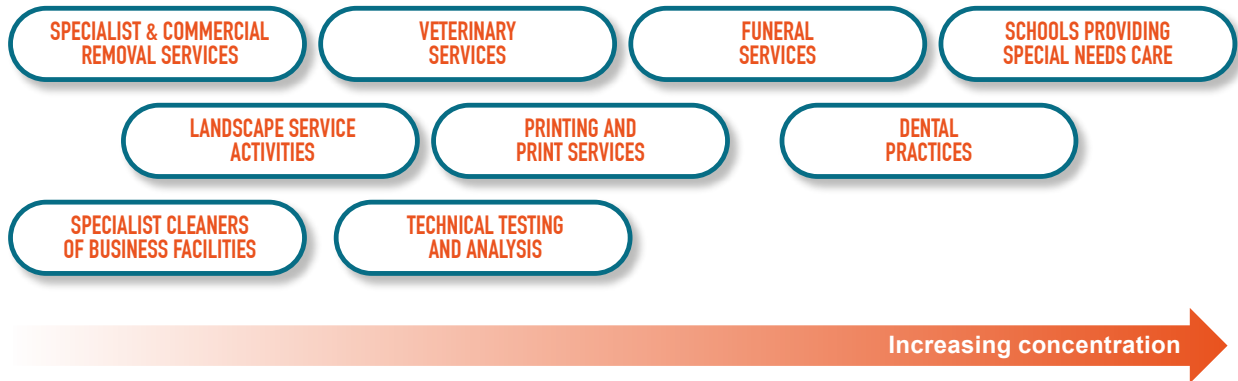
The European print market is slowly declining in volume as demand from business customers has stalled. A large part of their needs is being answered online. Supply is fragmented and competitive resulting in overcapacity at varying levels across Europe. Many players are of scale and are family-owned. Insolvencies and site closures are frequent. The limited number of pan-European suppliers implies opportunities to consolidate.

Organic growth is difficult in the print market. Investment in new capacity is expensive and increases market overcapacity; also, customers and suppliers are sticky to their respective legacy suppliers. Acquisition is

therefore the only feasible channel for growth: equipment has higher utilisation and customers and staff are acquired at the same time. There are several synergies to scale including EBITDA multiple arbitrage, the ability to manage group capacity more profitably and volume / credit security for both customers and suppliers.

Businesses that have pursued this avenue have successfully increased their margins by readjusting supply to the new demand levels, proving that there is opportunity even in a challenging market. Many small suppliers still remain, and consolidation is very likely to continue in the future.

Evolution of Buy and Build concentration



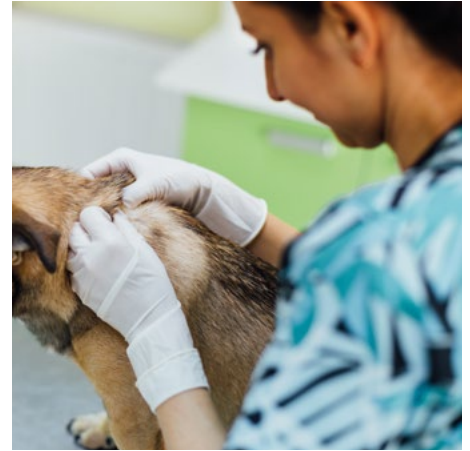
BUY AND BUILD CONCENTRATION

There are multiple sectors where we believe an opportunity for a Buy and Build strategy exists, such as:

- Sectors that were successful in the UK and that have not yet reached the same concentration level in Europe (e.g. vets)
- Sectors experiencing lower utilisation levels and in which consolidation is needed to increase margins (e.g. printing)
- Niche specialists in a larger sector with the ability to operate as a consolidator (e.g. specialist cleaning of facilities and equipment).

The most promising opportunities resulting from our analysis of each region all fall into one of these categories and present the minimum size and level of consolidation to be worth considering.

On a region-by-region basis, the following pages highlight specialised cleaning companies (UK and Ireland and Nordics), specialist and commercial removal services (France) and vets (Germany and Iberia).



VETS CASE STUDY

Consolidated in the UK but not in mainland Europe

In the UK, veterinary practices were traditionally very small and owned by individual veterinarians who operated them. Senior veterinarians typically pass on ownership of their practice upon retirement to the more junior vets working with them. In 1999, the market was de-regulated and private ownership was allowed. This enabled GPs to start investing in the market and successful Buy and Build strategies started to appear (e.g. CVS). These roll-ups have unlocked value by lowering variable costs and creating

purchasing synergies, which, coupled with multiple arbitrage between the platform transaction and the add-ons, led to large returns for investors.

In Europe, this consolidation is yet to take place in many countries. Depending on the country, this is explained by either a delay in de-regulation (i.e. private ownership is still not permitted) or because of less liquid PE environments and smaller market sizes, which make the first stage of a Buy and Build more difficult to accomplish.

Most promising Buy and Build opportunities by geography

Nordics

- Specialised cleaners of business facilities
- Specialist and commercial removal services
- Nurseries

UK and Ireland

- Landscape service activities
- Specialised cleaners of business facilities
- Specialist and commercial removal services

Iberia

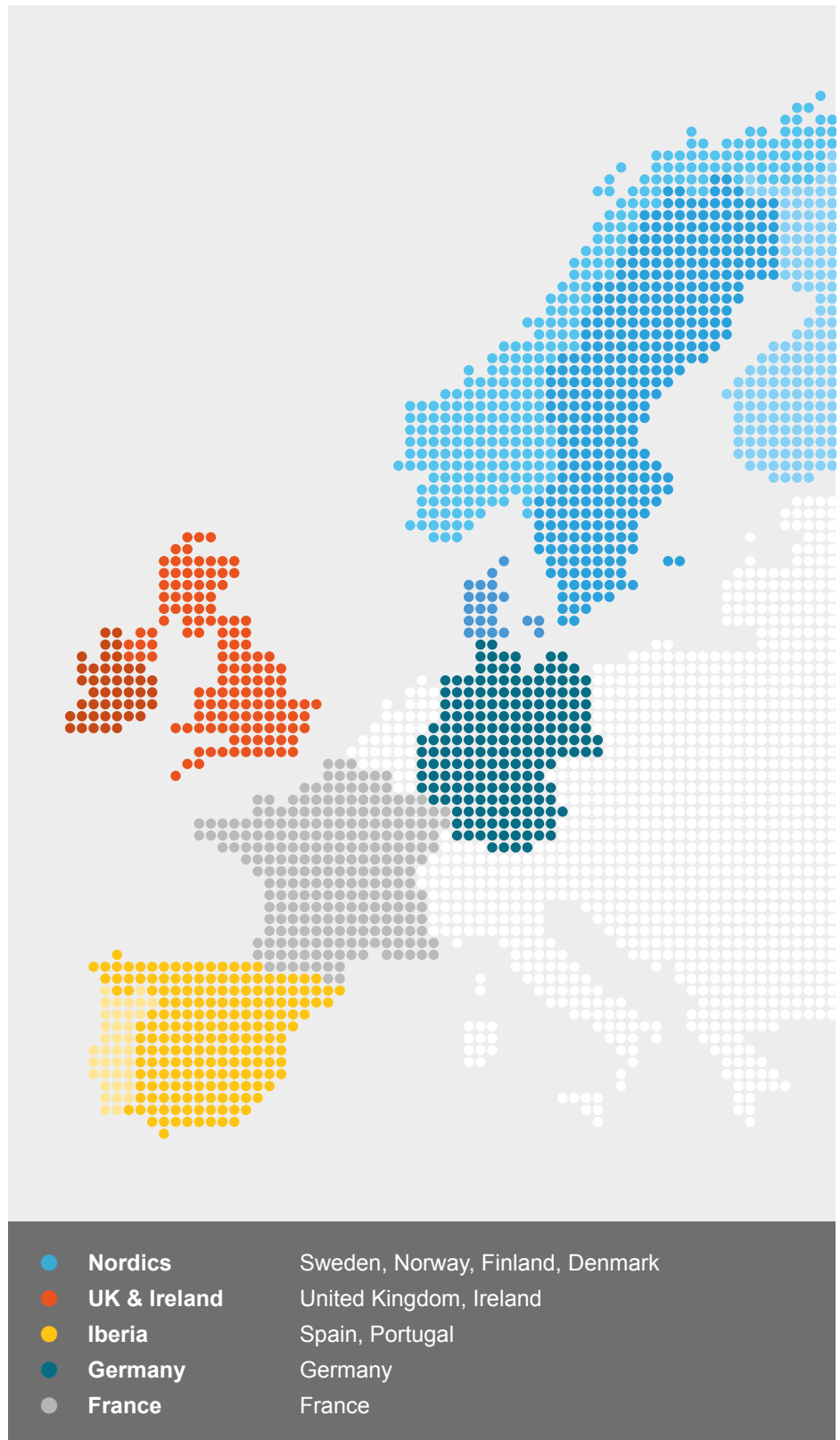
- Veterinary services
- Timber yards
- Repair of ships and boats

Germany

- Landscape service activities
- Specialist and commercial removal services
- Veterinary services

France

- Specialised cleaners of business facilities
- Specialist and commercial removal services
- Technical testing and analysis



Our analysis of Buy and Build opportunities

CIL has analysed over 2,700 sectors in 5 European regions. The results presented here are a small fraction of that analysis.

Further opportunities exist in these regions and we remain confident that GPs can continue to find good returns in Europe, even in a more competitive market.

For more information or support with a Buy and Build strategy please reach out to:

The CIL team



Giles Johnson
Partner

gjohnson@cil.com
+44 20 3829 2820



Jon Whiteman
Partner

jwhiteman@cil.com
+44 20 3829 2720



Simon Mocatta
Consultant

smocatta@cil.com
+44 20 3829 2729



Enabling growth, managing risk

30 King Street, London, EC2V 8EH

T. +44 20 3829 2700

W. cil.com