



EUROPEAN BUY & BUILD OPPORTUNITY INDEX

THE LAY OF THE LAND

European private equity activity has increased strongly and consistently over the last decade. While global economic disruption and political volatility have ramped up, the sector remains robust with plenty of dry powder to deploy. So, how can investors continue to create value and maximise returns?

Evolution of dry powder

Prequin data shows increasing levels of dry powder since 2013, growing at a CAGR of 11% and peaking in 2020. Accumulation of dry powder has slowed recently, with various projections showing a slight dip in volumes over the last year.

EV / EBITDA multiple

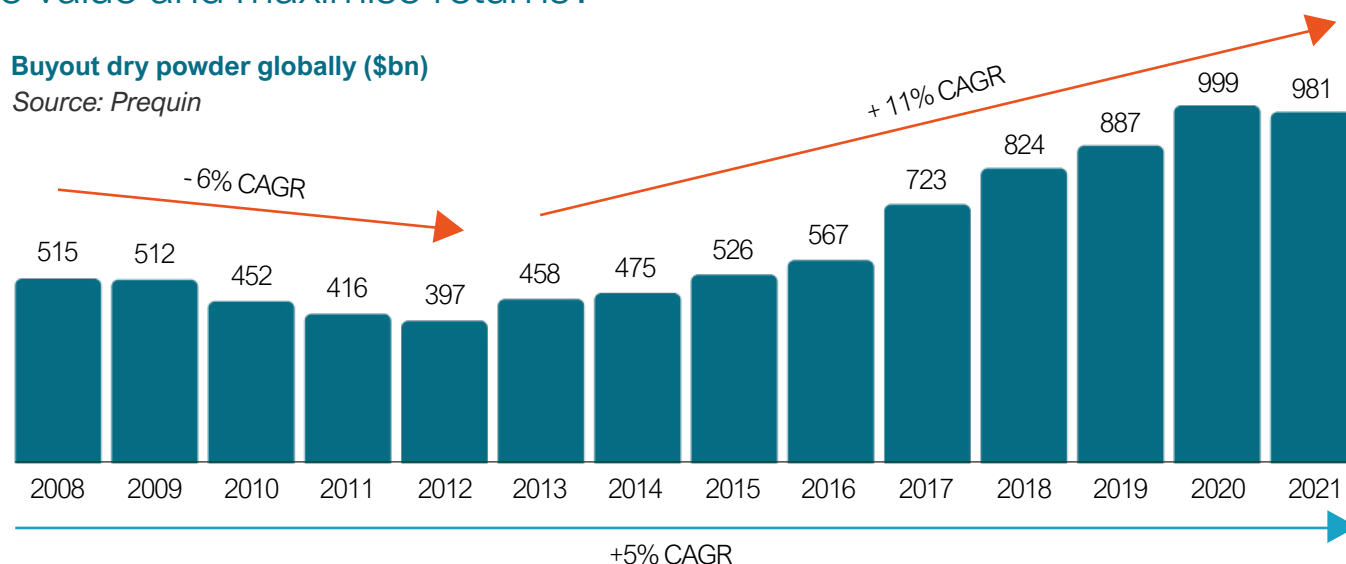
EBITDA multiples have been on the rise for the last few years, with Clearwater estimating average 2021 PE-backed transaction multiples to be 12.8x.

While private sector multiples have been growing steadily, they remain significantly below public EBITDA multiples. Euronext, the pan-European stock exchange, recorded an average multiple of 15.8x in 2021.

Competition for assets and pressure to deploy dry powder drive up enterprise value (EV) multiples, while sellers look to profit from the attractive pricing environment. Against this backdrop, buy & build strategies become increasingly relevant as GPs look for more diverse opportunities.

Buyout dry powder globally (\$bn)

Source: Prequin



Average multiples by region

Source: Clearwater International, Multiples Heatmap Q4 2021

	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
DACH	10.3	11.1	10.9	11.4	12.0	11.7
France	11.1	11.3	11.7	11.9	12.0	12.5
Nordics	11.0	11.8	12.1	12.3	14.3	13.8
UK & RoI	11.2	11.6	12.9	13.2	13.5	14.3

THE BUY & BUILD OPPORTUNITY

Buy & build is a favoured investment strategy for many. Indeed, ~60% of respondents in recent CIL survey of M&A professionals highlighted buy & build as their top value creation strategy.

PitchBook data shows that bolt-ons have grown significantly as a proportion of private equity deals over the last few years and suggests that over 50% of PE deals are classified as bolt-ons.

Compared to standalone deals, buy & build strategies have historically shown a higher return on capital invested. This is partly due to buy & build platforms achieving a "scale premium", as well as successful execution of value creation strategies

Key elements of an attractive buy & build market

Highly fragmented: attractive markets have ample white space to make cost-effective bolt-on acquisitions that can be rolled into one larger platform that will attract a scale premium.

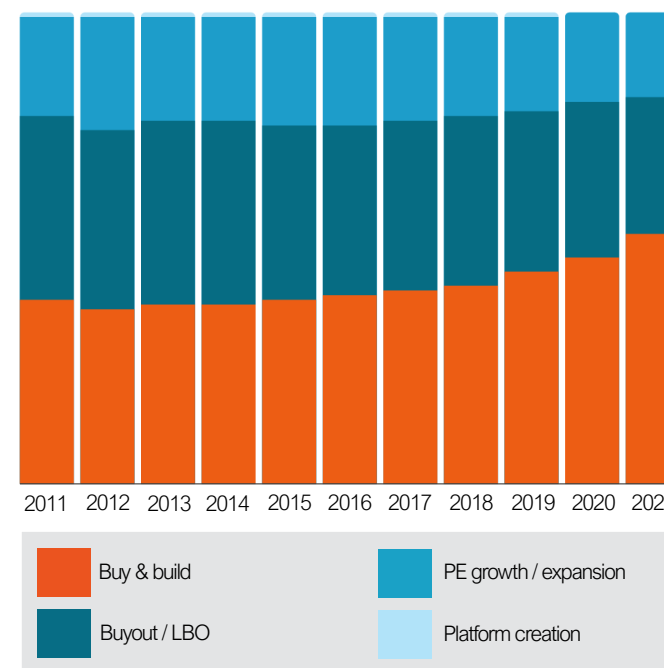
Synergy potential: a successful buy & build strategy will realise both cost (e.g. buying power/ control cost optimisation) and revenue (e.g. cross-selling) synergies. Markets which deal in high volumes or have high labour costs are particularly good for realising cost synergies.

Revenue expansion opportunities: successful buy & build strategies often take place in markets with multiple complementary products and an ability to both diversify and vertically integrate

Non-cyclical: sectors with predictable secular growth or businesses that have significant long-term contracts are often a qualifying characteristic for PE investment; this applies no less to a buy & build platform.

Share of PE deal volume by type

Source: PitchBook



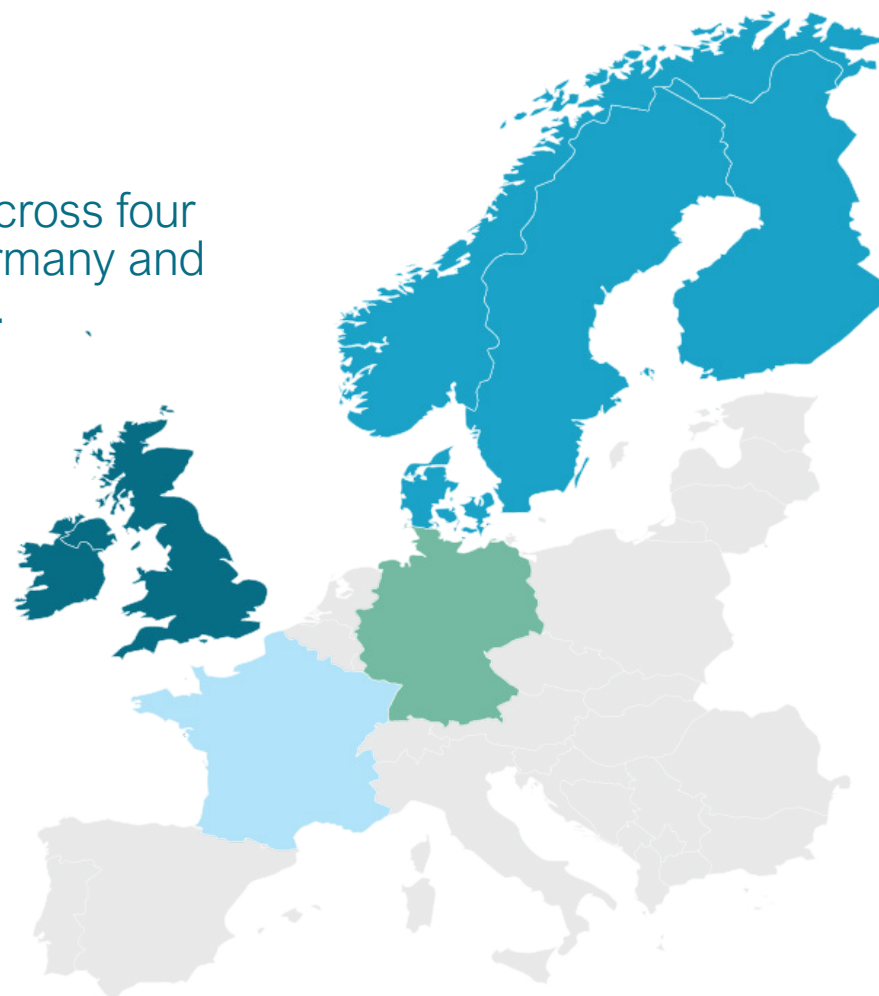
THE FINDINGS

CIL recently analysed over 2,500 business segments across four regions in Europe: the UK and Ireland, the Nordics, Germany and France, and applied our Buy & Build Opportunity Index.

This Index takes into account industry consolidation, relative scale and total industry turnover to identify large sectors that are well positioned for consolidation.

We identified the top 20 sectors per geography that could lend themselves to a buy & build strategy based on the data and then analysed each from a commercial and macroeconomic perspective.

The result is a curated shortlist of the most attractive sectors for buy & build strategies per geography. The following pages will dive deeper into the findings.



FRANCE

Landscaping
Veterinary services
Camping grounds

UK & RoI

Event catering
Industrial cleaning services
Waste management

GERMANY

Event catering
Veterinary services
Commercial cleaning

NORDICS

Event catering
Recruitment agencies
Commercial cleaning

FRANCE

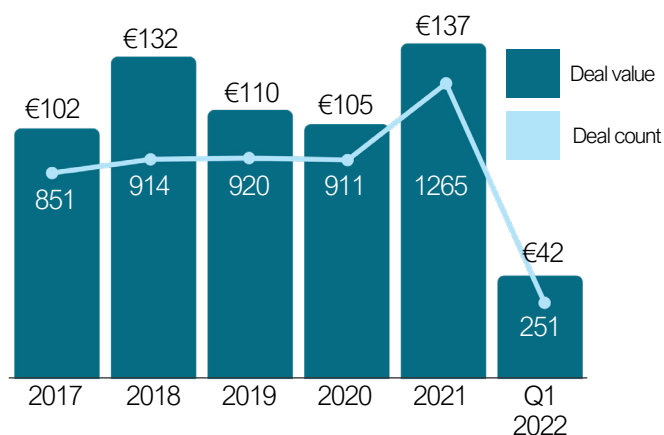
France is the second largest private equity market in Europe and has experienced significant growth over the last decade. Private equity invested capital has been growing faster than anywhere else in Europe.

Buy & Build Opportunity Index results

1. Landscaping
2. Veterinary services
3. Camping grounds

Buyouts in France and Benelux (€bn)

Source: PitchBook



The French market is becoming increasingly pan-European. More European funds are opening offices in Paris, and French private equity funds are expanding within Europe.

France has been the most attractive country in Europe for foreign direct investment for the last three years, and external capital investments are increasingly understood and accepted.

We believe the French market offers an attractive platform for buy & build strategies for two key reasons:

An abundance of smaller businesses

There are few large (GEs) or even medium-sized (ETIs) businesses in France – an attractive landscape for any investor interested in buy & build opportunities.

Yet, despite a growing acceptance of private equity, it appears essential to have a local presence to successfully transact in France.

Changes to legislation

Historically, regulation has impeded French businesses from attracting foreign investment. Some of these regulations have been lifted over the last few years, primarily due to a more liberal government following a pro-business agenda and a harmonisation of legislation at the European level. The veterinary sector is an excellent example of this (see page 8).

Additionally, France could provide a suitable base for experienced investors to establish a pan-European buy & build strategy due to its scale and location.



Pinson Paysage, a MBO & Co portfolio company, is a landscaping services provider with €100 million in turnover and 1,000 employees.

In 2021 it acquired Botanica, a business specialising in the maintenance, landscaping and irrigation of green spaces, creating a national group with 29 locations in France.

MBO & Co stated “this operation is an important step in the construction of a major player in the landscaping industry. Our ambition is to keep on accelerating the Group’s growth in its various activities, by being the most active consolidation platform in France”.

GERMANY

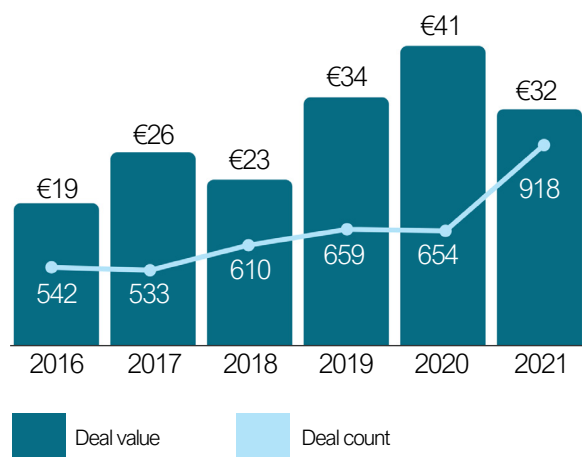
The Mittelstand forms the backbone of the German economy. But, with many of these businesses founded in the 1960s and 1970s, questions around succession are becoming increasingly urgent to address.

Buy & Build Opportunity Index results

1. Event catering
2. Veterinary services
3. Commercial cleaning

PE activity in the DACH region (€bn)

Source: PitchBook



While the Mittelstand, politicians, and German regulators have been sceptical of external investment, the next generation of leaders brings a more accepting attitude to outside capital and a keen awareness of its benefits.

As attracting external investment becomes a more established growth lever in the German market, pursuing buy & build strategies offers a clear opportunity for the Mittelstand to forge national, and even pan-European, champions.

We believe the German market offers an attractive platform for buy & build strategies for several reasons:

The make-up of the Mittelstand

The Mittelstand is comprised of small and mid-cap businesses that are often operating in hugely fragmented sectors. By consolidating, management teams can unlock the benefits enjoyed by their larger rivals, including purchasing synergies, better access to talent and increased pricing power.

Delayed digitalisation

Germany remains behind the curve when it comes to digitalisation. McKinsey's Digital Sentiment Survey measures digital adoption across 19 European geographies. The 2022 survey ranked Germany in thirteenth place and last in Western Europe. However, while it has traditionally been slower to adopt digital behaviours, this year it saw the largest surge in adoption and consumer satisfaction with digital services. Habits are beginning to change.

Investors with a track record in integrating technology to enable efficiencies are well placed to deliver value and provide businesses with the tools to access the next stage of growth.

Our results

Private equity can bring a clear vision, strategy and focus to strong businesses that haven't yet been optimised for growth.

CIL's research shows that sectors that have benefitted from buy & build strategies in other geographies, such as vets, still have room for consolidation across Germany.

THE NORDICS

The Nordic market is one of the more mature markets in Europe, having raised ~€50 billion in aggregate capital commitments over the last ten years and giving rise to nearly 200 private equity firms.

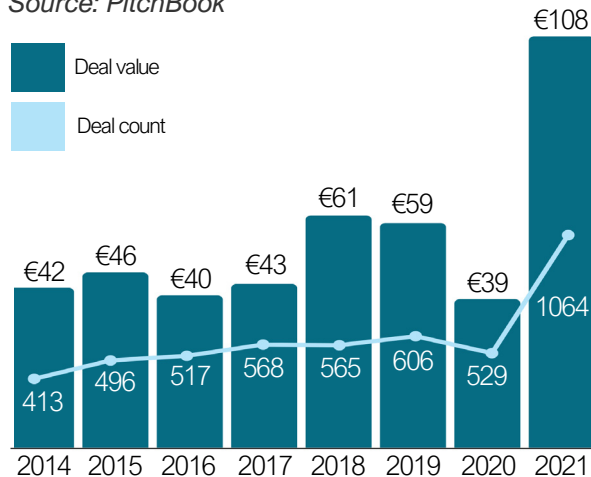
Buy & Build Opportunity Index results

1. Event catering
2. Recruitment agencies
3. Commercial cleaning

PitchBook reports that the value of deals in the Nordic private equity market grew by 13% CAGR 2010-2019, and 21% CAGR 2018-2021, as interest in both the asset class and the region increased.

PE activity in the Nordics (€bn)

Source: PitchBook



Over the last ten years, we have seen growth in buy & build as a value creation play throughout the Nordics, with bolt-ons accounting for ~35-45% of deal value and ~45-55% of deal volumes each year since 2011.

This impressive growth has been attributed to four key characteristics:

- Strong public and private institutions and a stable macroeconomic framework.
- A competitive and diverse group of private equity managers.
- An enterprising culture and a growing pool of regional companies with strong international growth potential.
- A growing secondary market providing investors flexibility to optimise and re-balance their portfolios.

There are clear opportunities for investors in commercial cleaning, event catering and recruitment agencies to unlock cost synergies and efficiency gains through pursuing a targeted buy & build strategy.



AXCEL

In late 2020, Nordic Private Equity Firm Axcel acquired Moment Group, a temporary staffing agency.

It subsequently bolted on four Danish and two Swedish agencies, creating a pan-Nordic recruitment platform. In doing so it has increased turnover from almost DKK 600 million to two billion in its first year of ownership.

SPOTLIGHT: VETS

A fragmented market, with largely non-cyclical and stable revenue streams, the veterinary sector reached the top three most attractive sectors for a buy & build strategy in both France and Germany.

Veterinary practice ownership has been subject to regulation in most European countries, which inhibited investment and presented succession challenges.

In 1999, the UK market was deregulated and private ownership was allowed. This enabled external investment and successful buy & build strategies started to appear. These roll-ups unlocked value by lowering variable costs and creating purchasing synergies, which were then coupled with multiple arbitrage between the platform transaction and the add-ons.

In Europe, this consolidation is yet to take place in many countries and so an attractive opportunity for investors remains.

Recent changes to EU competition law deregulated the space, enabling inflows of external capital and the creation of corporate groups. This has led to

more significant investment in the sector, and the emergence of some platforms, albeit still on a smaller scale compared to geographies where the sector is more mature and consolidated.

Market attractiveness

Fragmentation of the market: there are few larger players that currently act as platform companies, leaving space for a strategic player to take share.

Multiple arbitrage: with many willing sellers, such as retiring vets, multiples are attractive in the veterinary market.

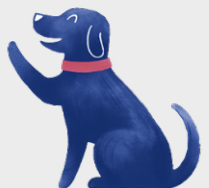
Synergies: a large shortage of vets presents an opportunity. PE firms are having success in introducing roaming vets that are paid a premium but able to support under-served locations.



In June 2022, Ardian announced a unitranche financing arrangement to support SEVETYS in the acquisition of 100 additional veterinary clinics in France. Discussing the deal, Ardian wrote “SEVETYS has been established with the objective of consolidating the growing and fragmented French veterinary market. The French market presents a significant opportunity for consolidation, as only 15% of the country’s 6,000 clinics are run as part of large groups”.



Medivet has been under private equity ownership since 2016, and has expanded into both Germany and Spain in recent years. Most recently it was acquired by CVC Capital Partners. Discussing the investment, CVC Managing Partner Dominic Murphy stated “we are delighted to be backing the management team to further grow the UK business and accelerate international expansion. CVC Funds have significant experience investing in similar service-based healthcare businesses across Europe”.



SPOTLIGHT: CAMPING

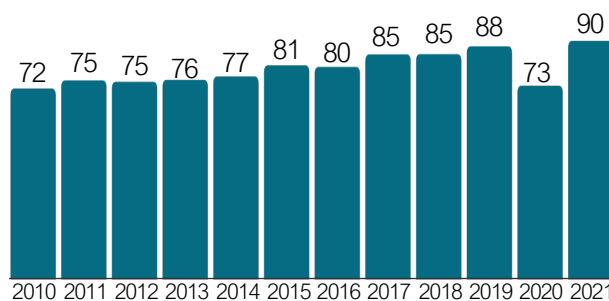
Clear evidence of growing consumer interest and a fragmented supply base make camping grounds an attractive sector for a buy & build strategy.

French camping grounds are enjoying a virtuous cycle of investment and an improving proposition driving growth in visitor numbers.

This has prompted external investment. However, there remains plenty of opportunity for further growth and consolidation across the industry.

Number of nights sold annually by campsites in France (million nights, French residents)

Source: Insee



Market attractiveness

Proposition expansion: there is a long-term trend towards more premium units, with nights booked in 4* and 5* campsites growing by 2.6% CAGR 2013-2021. Players in the space may be able to take share, expand revenue and grow fees by expanding their propositions to include more modern, premium and novel types of accommodation.

Potential for multiple arbitrage: with many independent parks, there is opportunity for investors in the space to buy attractive sites at a low multiple and benefit from the halo effect and investment of being part of a larger group. CIL has seen camping grounds and holiday parks acquired for high single-digit multiples and sold as part of a group for multiples in the mid-teens.

Opportunity to professionalise privately-owned grounds: the sector has traditionally been served by single-site operators; scale can bring many opportunities for professionalisation. This includes building or improving the ground's digital presence, pricing sophistication and on-park facilities (including the costly but important wifi upgrades).



In 2021, PAI Partners acquired European Camping Group (ECG). ECG operates a fleet of over 22,000 units (mostly mobile homes) across more than 310 premium campsites located in France, Italy, Spain and Croatia. In regard to the deal, PAI wrote "the transaction will provide a solid foundation for future growth with ECG benefitting from PAI's support as it seeks to take advantage of a wide range of organic and M&A opportunities".

In July 2022, the company announced the bolt-on of Vacanceselect. The company is present in over 270 campsites, located across European destinations such as France, Italy, Spain and Croatia. Vacanceselect has a strong presence throughout the camping and outdoor accommodation value chain, including rental activities, mobile home sales and online digital distribution.

SPOTLIGHT: CATERING

Event catering was found to be an attractive sector for a buy & build strategy in Germany, France and the Nordics.

We have seen increasing interest in the growth potential of the sector, driven by relatively low overheads and opportunities for revenue expansion.

Synergies: the cost of labour, recruitment and training is a substantial outlay for any business in the sector. Having a larger pool of workers to draw from can smooth out over/under capacity and drive cost savings through a reduction in both idle workers and the need to find temporary labour, where costs are substantially higher.

Furthermore, the costs of onboarding and training become cheaper per head when centralised and performed at scale.

Revenue expansion opportunities: in more mature markets, we have seen leading players begin to bundle catering, facilities management and cleaning services together. Larger platforms can grow revenue per contract by offering adjacent services and by acting as a single point of contact that meets all of their customers' needs.

However, there is a clear area of concern: growth in the sector is heavily dependent on the health of the wider economy and is therefore vulnerable to cyclical fluctuations.



In 2021, Better Taste Holding GmbH, an AURELIUS portfolio company and caterer for events, schools and kindergartens, announced the acquisition of BVS Catering GmbH & Co. KG. BVS is a leading catering provider in the Rhine-Neckar metropolitan region, catering fresh meals to schools, kindergartens, and daycare centres.

The transaction marks the third add-on acquisition for Better Taste under AURELIUS' management.

GET IN TOUCH

CIL provides value creation, strategy consulting and due diligence support to management teams and investors. Our teams go beyond market data, leveraging real understanding of their sectors to offer clear, actionable insight.



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