May 2024

# European Private Market Q1 Insights & Q2 2024 Outlook

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# Speakers

**Nick Baldwin**
**Managing Director, Valuations & Opinions Group**
London, UK

**Aude Doyen**
**Managing Director, Capital Advisory**
London, UK

**Florus Plantenga**
**Managing Director, Financial Sponsors**
London, UK

**Bernhard Aigner**
**Director, Capital Advisory**
Frankfurt, DE

**Matthew Lee**
**Managing Director, Head of UK Office**
London, UK

# Agenda

- Q1 2024 EU Valuation Insights
- Financing Market Update
- Syndicated Markets vs. Private Credit
- Recent M&A Activity

# Firm Update – New Joiners

Joined January 2024

**Lalit Kasat**

Managing Director

Technology, Media & Telecom

London, UK

Joined April 2024

**Lewis Gray**

Managing Director

Business Services

London, UK

**Carlos Candil**

Managing Director

Energy, Power & Infrastructure

London, UK

Joined May 2024

**Simon von Witzleben**

Managing Director

Valuations & Opinions

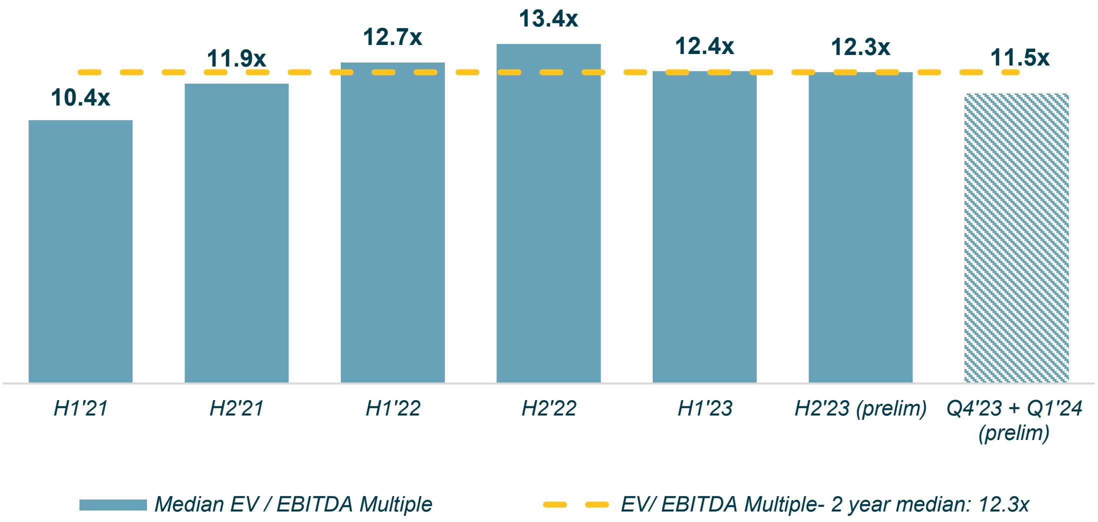
London, UK

# Q1 2024 EU valuations insights

# European Lincoln Observed New Third-Party M&A Buyouts

New buyout transactions remained muted over the last 18 months. In the past six months, EV multiples were 0.8x lower than 2023, due in part to impact from higher rates, but also a function of mix – in Q1-24, deals that closed were more industrial and manufacturing related businesses that sold at 7-9x EBITDA, with fewer software and services deals, which carry higher multiples.

## EV / EBITDA Transaction Multiples[1]



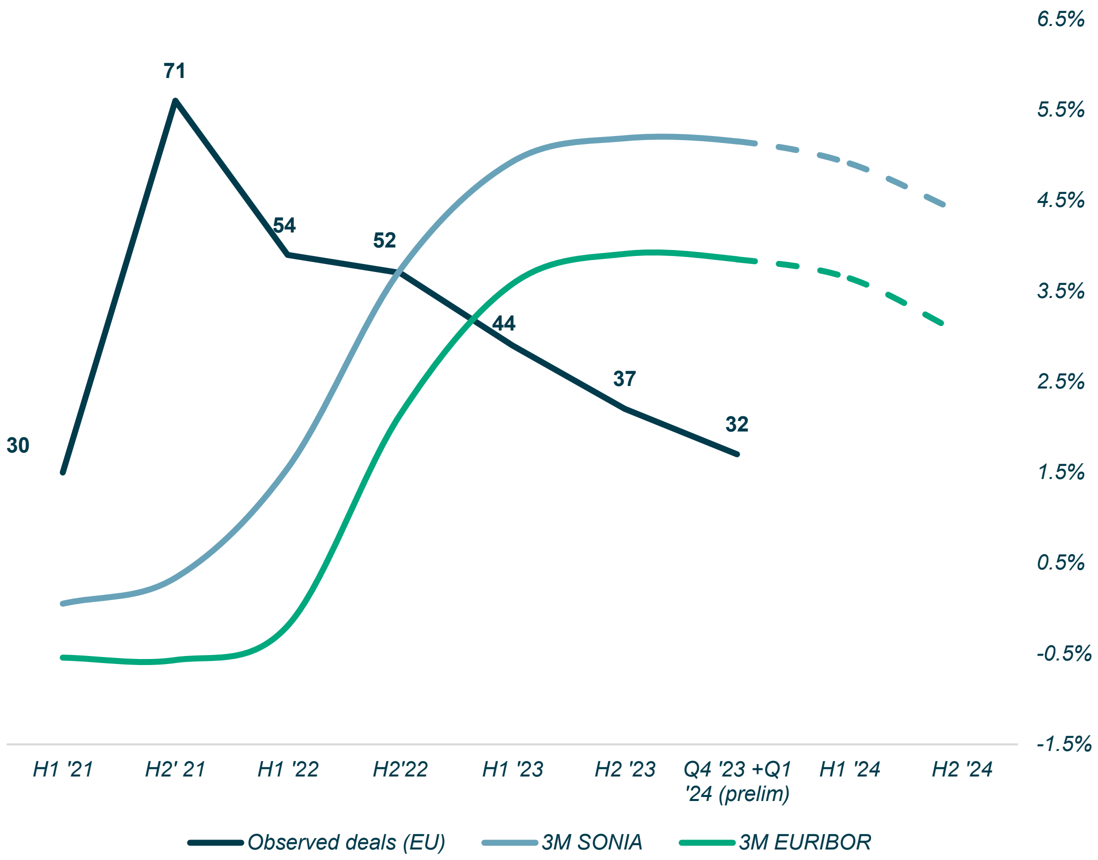

*Median Leverage Multiples[2]*

| | | | | | | |
|---|---|---|---|---|---|---|
| 4.9x | 5.2x | 5.6x | 5.5x | 5.4x | 4.3x | NA |

*Median EBITDA (€m)*

| | | | | | | |
|---|---|---|---|---|---|---|
| 13.4 | 11.4 | 16.2 | 28.4 | 21.3 | 11.9 | 12.3 |

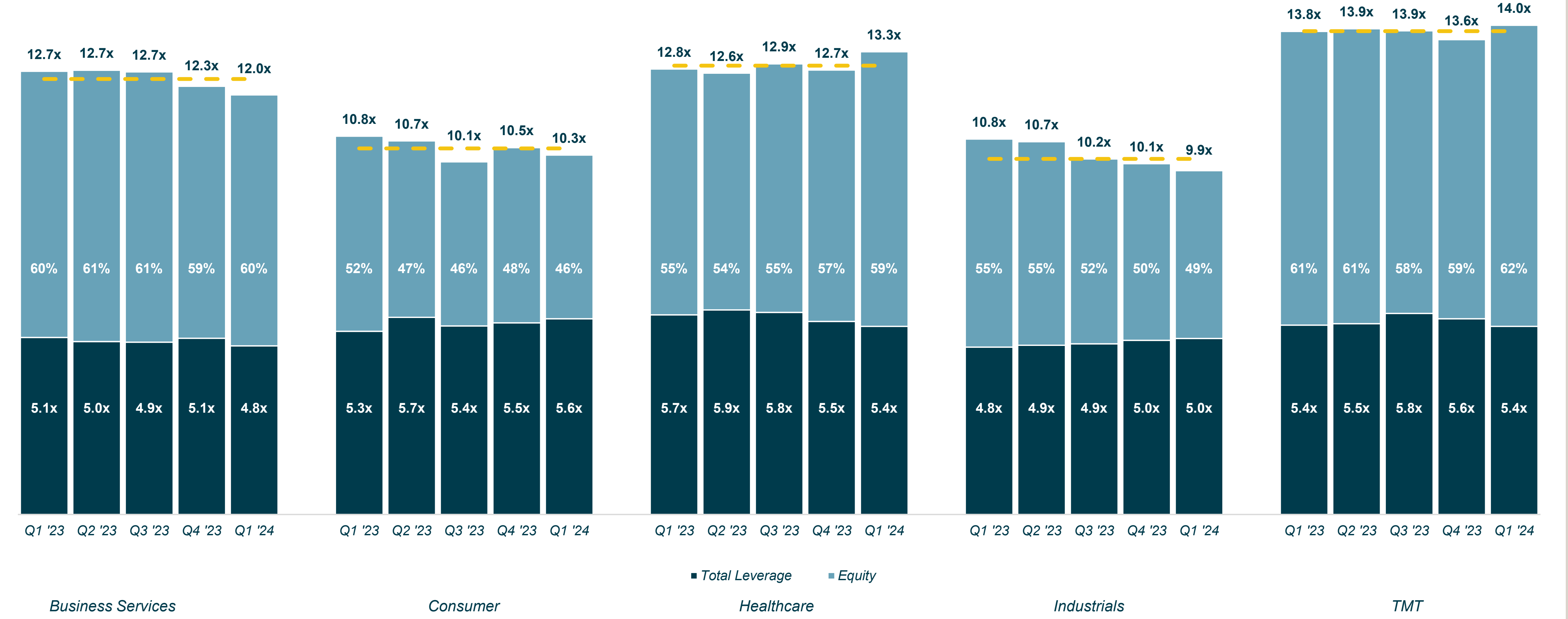
## 3M EURIBOR, 3M SONIA & LI Observed Deal Activity




SOURCE: Lincoln VOG Proprietary Private Market Database, Bloomberg L.P – Europe only. (1) Includes New Third-Party M&A Buyouts with EV/LTM EBITDA multiples between 4x-30x. (2) Median Leverage Multiples are based off VOG Deals data

# European EV/LTM EBITDA Multiple Evolution by Industry

We are seeing mixed trends in EV multiples over the last year. Valuations in Healthcare and TMT have held up well, and remain above their 2023 average. However, valuations in Business Services, Consumer and Industrials have started to trend downwards.




SOURCE: Lincoln International's proprietary database – Europe only. NOTE: EV/LTM EBITDA multiples exclude companies valued solely using revenue multiples.



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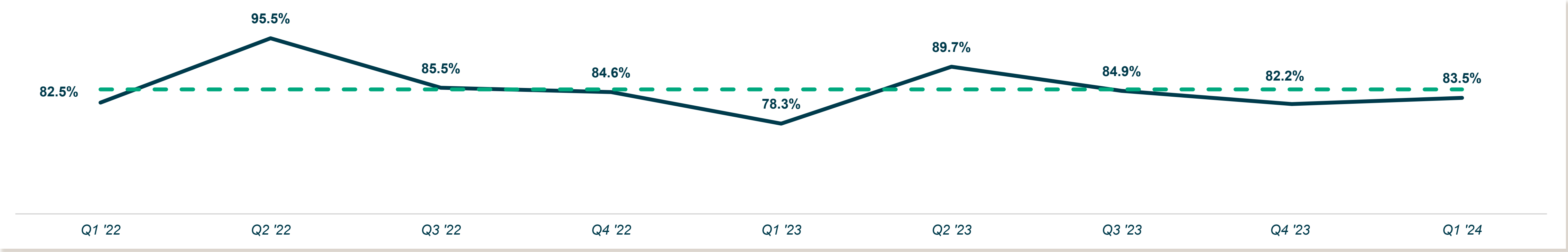
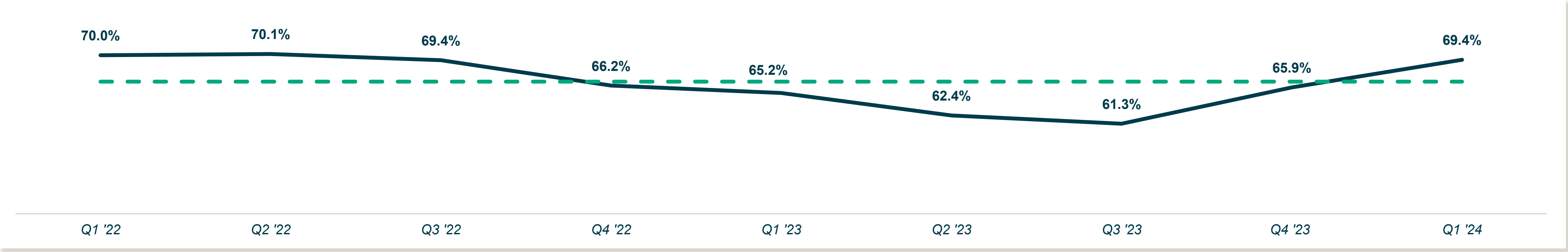
# European LTM Revenue & EBITDA Growth

Private companies continue to demonstrate resilient performance, with 83% of companies showing YoY LTM Revenue growth. 69% of companies have reported YoY LTM EBITDA growth, maintaining the trend from last quarter. Lincoln observed increased convergence between the LTM revenue and EBITDA growth compared to the prior year.

## Percentage of Companies Reporting YoY Revenue Growth




## Percentage of Companies Reporting YoY EBITDA Growth




*SOURCE: Lincoln VOG Proprietary Private Market Database.*



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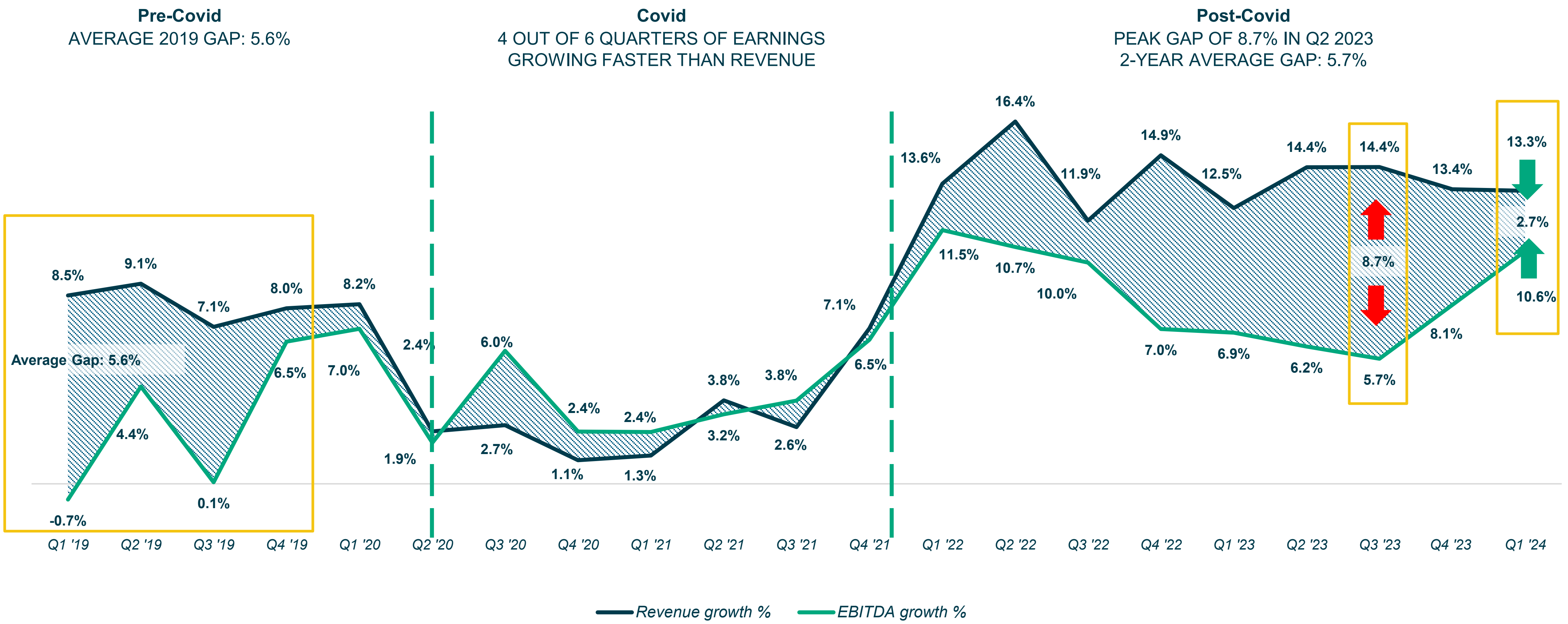
# European Magnitude of LTM Revenue & EBITDA Growth

Average revenue growth continues to exceed double digits and was flat from the prior period, while the rate of growth in EBITDA continues to converge upward to revenue growth in a continuing positive trend.




*SOURCE: Lincoln VOG Proprietary Private Market Database.*



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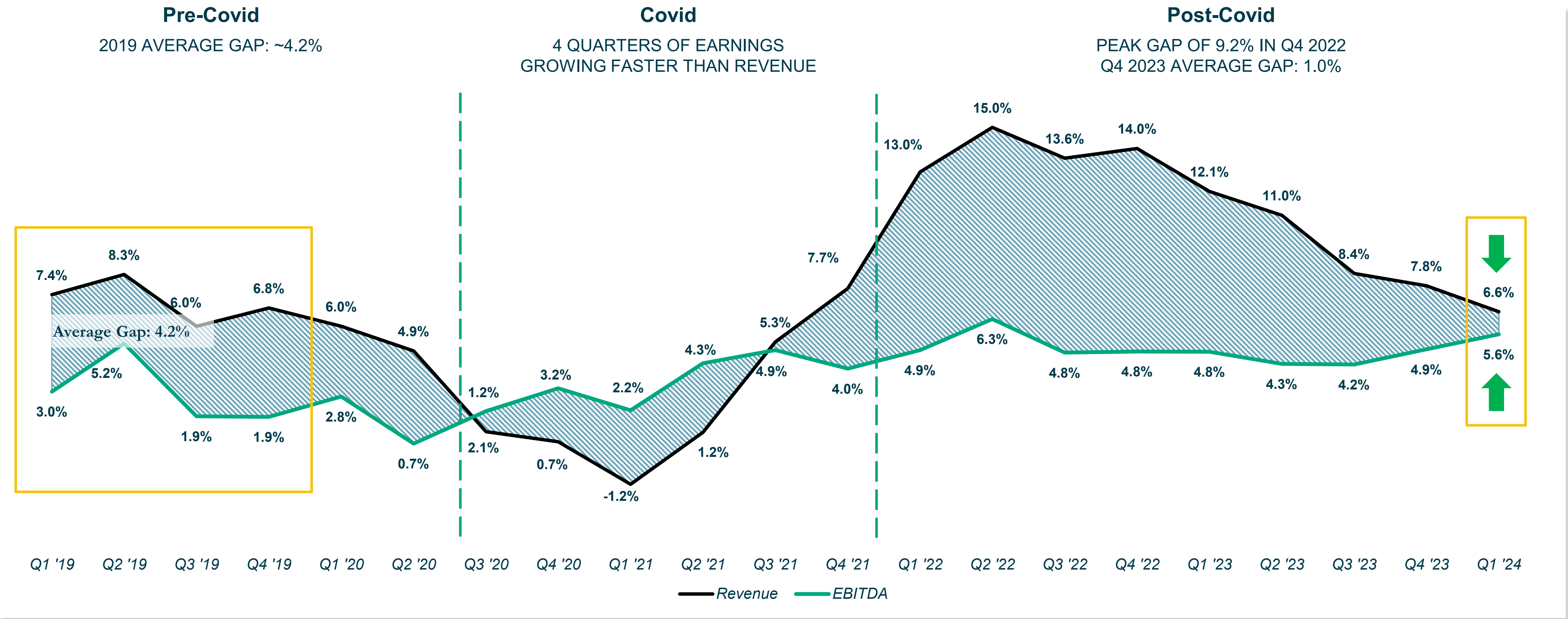
# U.S. Magnitude of LTM Revenue & EBITDA Growth

Private markets revenue growth contracted for the last four quarters and EBITDA growth has been relatively stable, resulting in decreased margin compression.




SOURCE: Lincoln VOG Proprietary Private Market Database.



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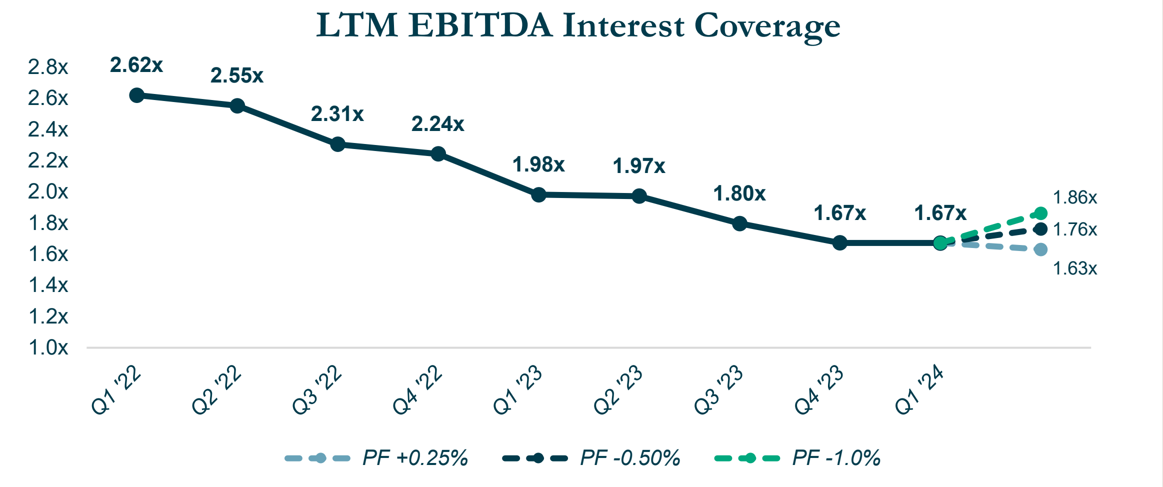
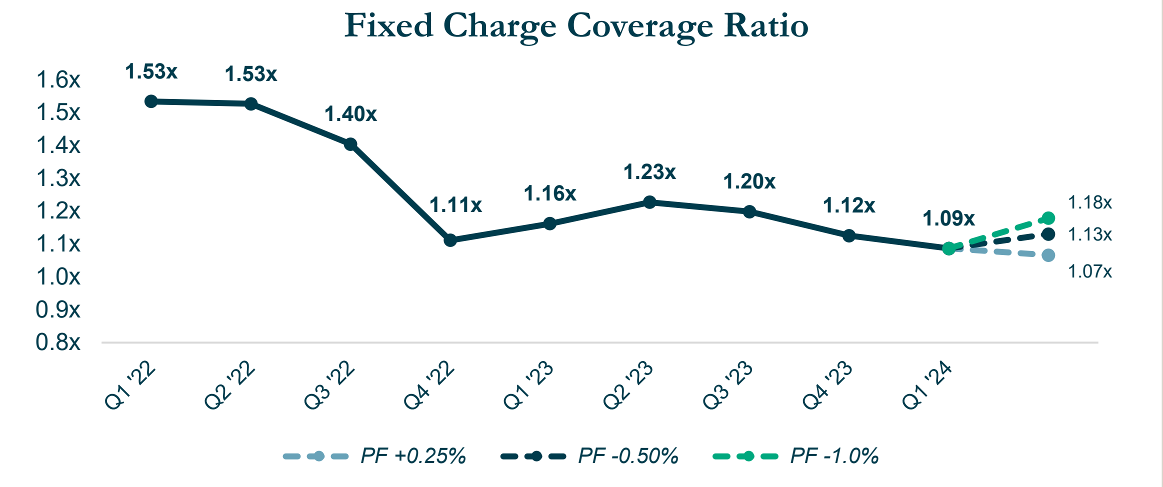
# European Interest Coverage & Fixed Charge Coverage Ratios

ICR and FCCR continue to decline albeit at a slower rate. Our sensitivity analysis shows that on a Pro Forma basis, a 1.0% decrease in the interest rate results in an improvement of approximately 0.2x for ICR and 0.1x for FCCR.

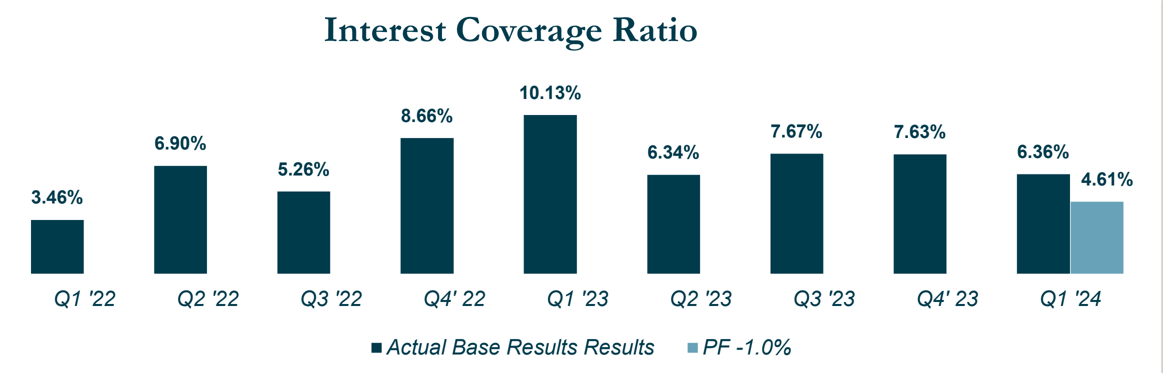


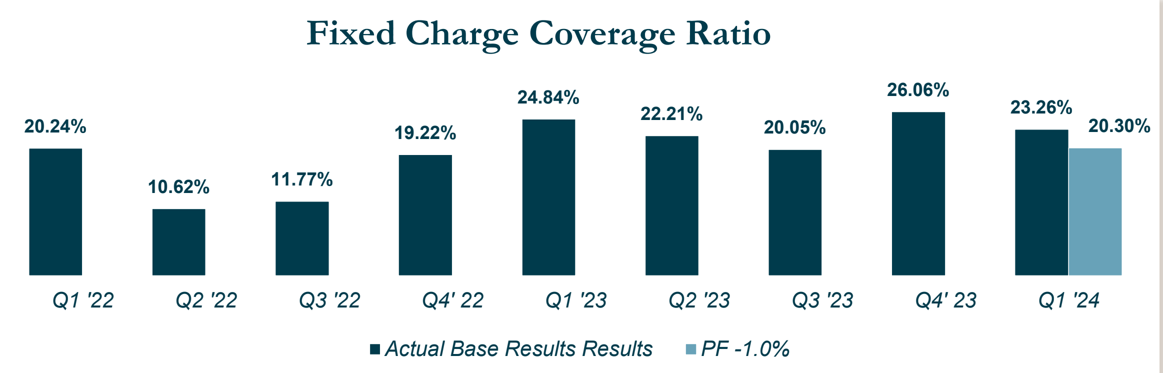




*Calculations: Interest Coverage Ratio = (LTM EBITDA) / Actual LTM Interest*

*Fixed Charge Coverage Ratio = (LTM EBITDA-Taxes–Capex) / [(LTM Interest Expense+(1% * Total Debt)]*

## Size-Weighted Percentage of Companies with Interest Coverage and Fixed Charge Ratios under 1.0x



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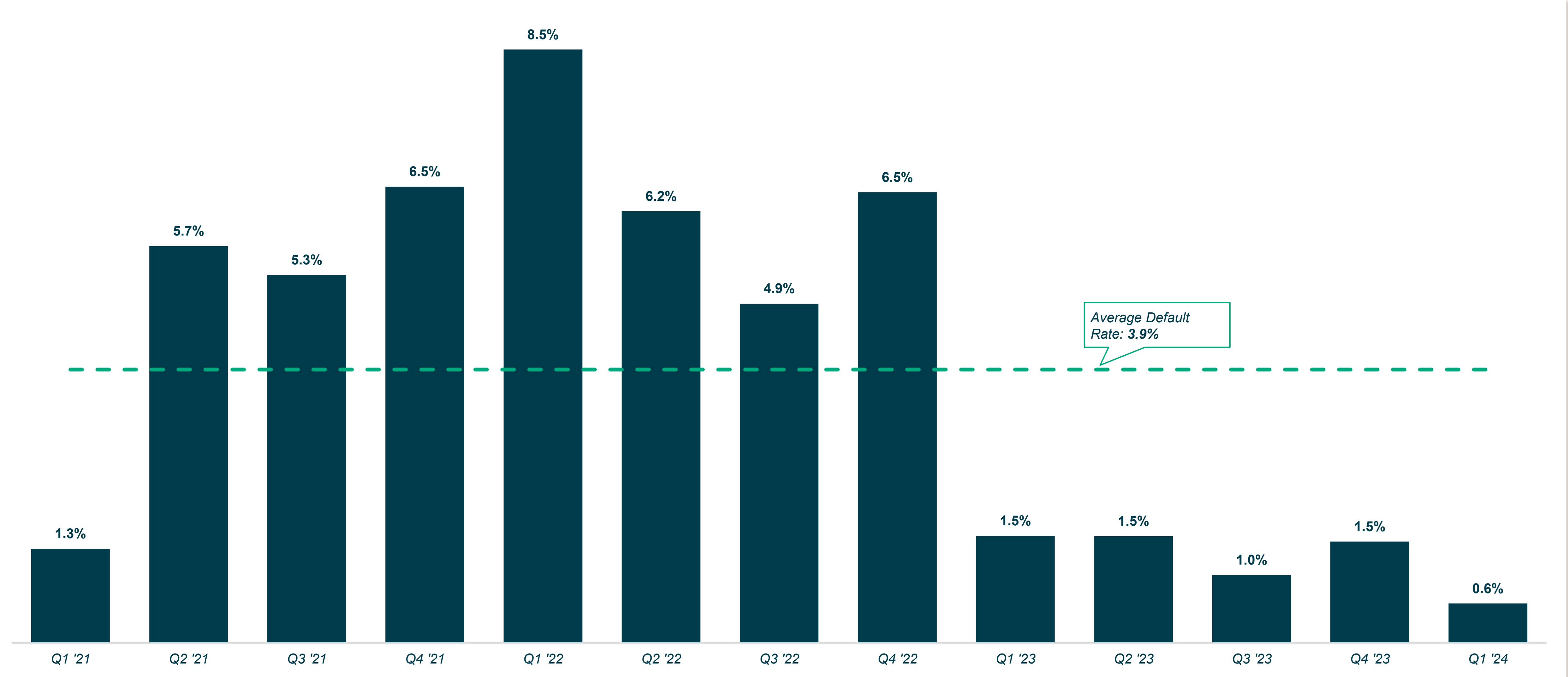
# European Covenant Default Rate (Size-Weighted)




*Source: Lincoln VOG Proprietary Database. Note: A default is defined as a covenant default and not a monetary default. The analysis was performed based on a size-weighted approach, which considered the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter.*



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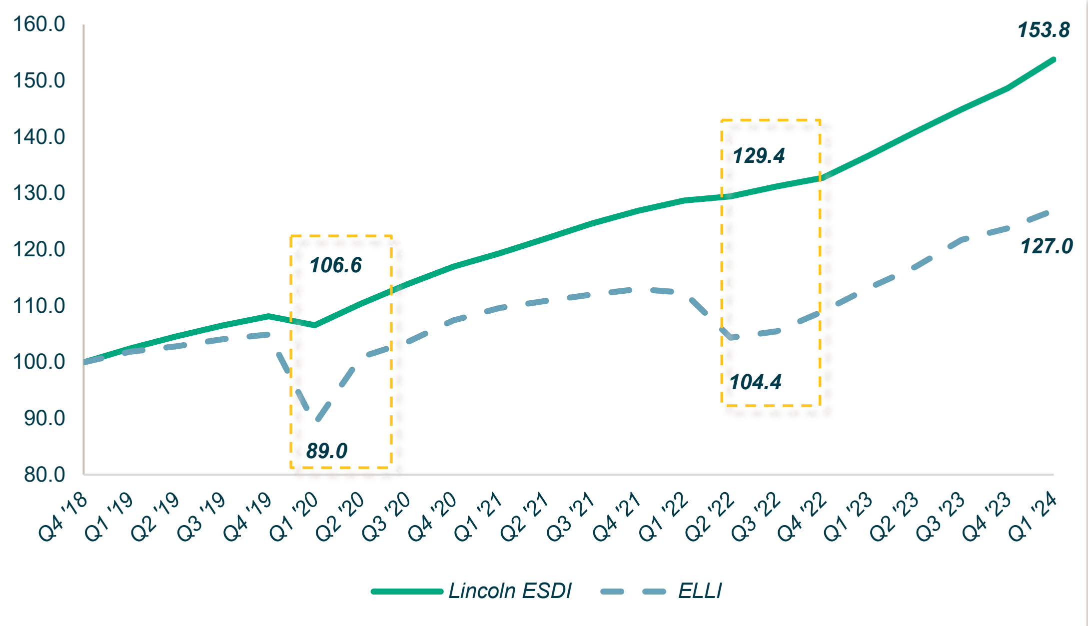
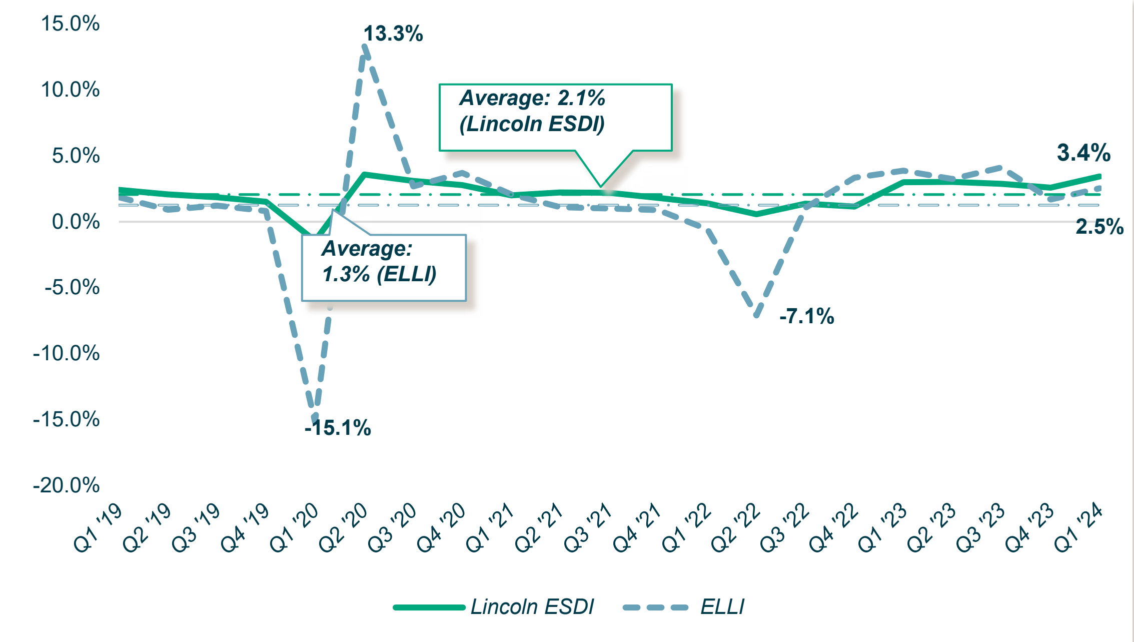
# Comparison of Lincoln ESDI to the Public Market

## Graph 1 – Total Return




## Graph 2 – Quarterly Return[1]




| | Quarterly Return | Standard Deviation | Median Annual Return (since Q1 2019) | Standard Deviation of Annual Returns (since Q1 2019) |
|---|---|---|---|---|
| Lincoln ESDI | 3.4% | 1.1% | 8.2% | 2.5% |
| ELLI | 2.5% | 4.9% | 3.7% | 8.7% |

**Quarterly private credit returns have been attractive in Europe over the past five years when compared to the broadly syndicated loan market.**



NOTE (1) Quarterly returns commence in Q1 2019 as they are calculated on the basis of consecutive periods.

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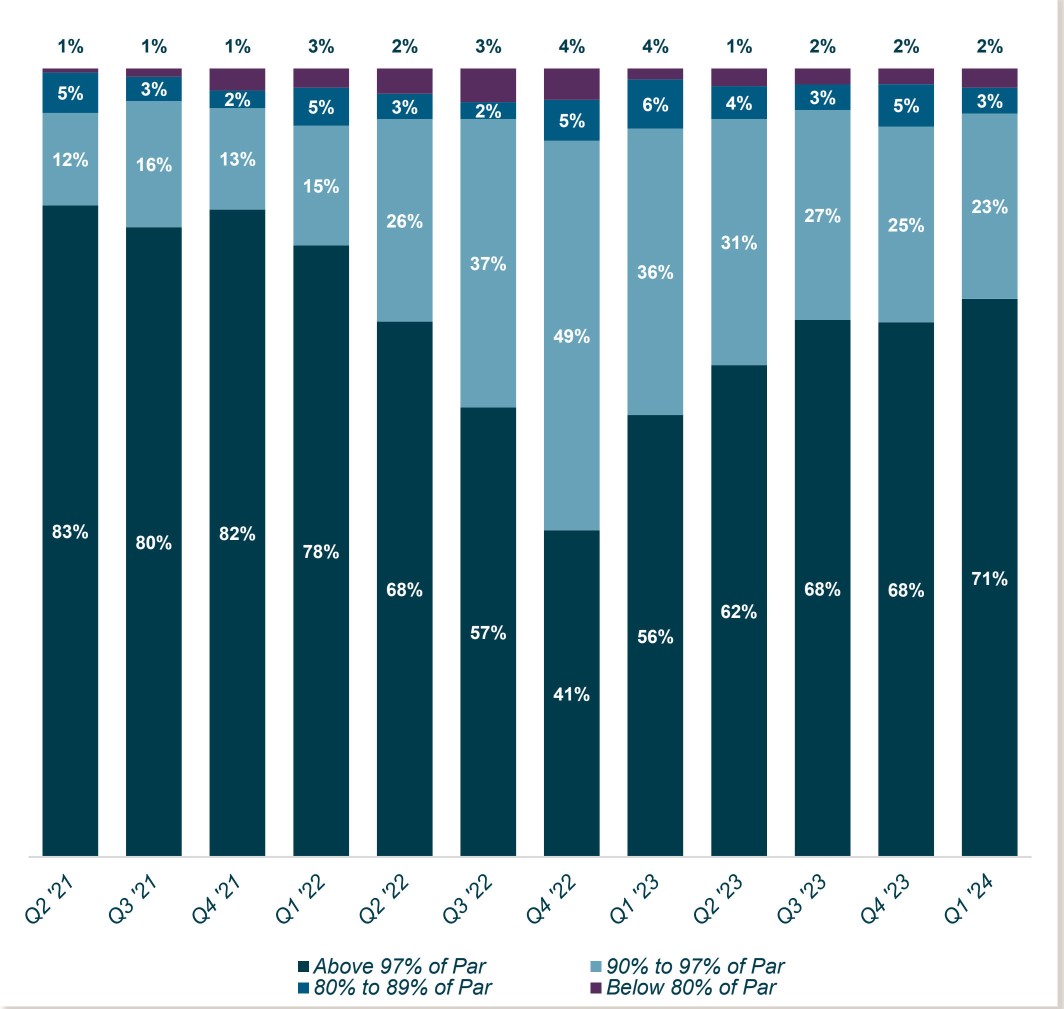
# European Senior Debt Index
# Fair Values Observed Across Private Loans

## Distribution of Private Credit Fair Values




## Private Credit Fair Values by Quarter


*NOTE: Fair Value averages may differ from Lincoln's Senior Debt Index as they represent overall fair value averages for all of the debt securities that Lincoln values.*



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# Financing Market Update

# Historical Changes Financing Terms From Funds

| | Market Peak (Q3 2021) | Dislocation (Q3 2022) | Q4 2023 | Now (May 2024) |
|---|---|---|---|---|
| **Leverage** (Europe excluding UK) | 4.00x to 6.50x<br>min to max (1) | 3.75x to 5.75x<br>min to max | 4.50x to 5.50x<br>min to max | 4.50x to 5.50x<br>min to max |
| **Margin** (Europe excluding UK) | 5.50% to 8.00%<br>min to max (1) | 6.00% to 8.00%<br>min to max | 5.75% to 6.75%<br>min to max | 5.50% to 6.50%<br>min to max |
| **Leverage** (UK) | 5.00x to 6.50x<br>min to max | 4.00x to 5.50x<br>min to max | 4.50x to 5.50x<br>min to max | 4.50x to 5.50x<br>min to max |
| **Margin** (UK) | 5.75% to 6.50%<br>min to max | 6.50% to 8.00%<br>min to max | 5.75% to 6.75%<br>min to max | 5.50% to 6.50%<br>min to max |
| **Leverage** (US) | 5.00x to 6.50x<br>min to max | 4.50x to 5.50x<br>min to max | 4.50x to 5.50x<br>min to max | 4.50x to 5.50x<br>min to max |
| **Margin** (US) | 5.00% to 6.00%<br>min to max | 6.50% to 7.50%<br>min to max | 6.00% to 6.75%<br>min to max | 5.50% to 6.50%<br>min to max |

*SOURCE: Lincoln Capital Advisory Group; Represents a performing mid-market European leveraged credit as of April 2024; For US credits, terms represent companies between $15-40 million of EBITDA. For Euro and GBP credits, terms represent countries between €10-30 million of EBITDA.*



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# Syndicated Markets vs. Private Credit

# Recap - Private Credit vs. Broadly Syndicated Loans vs. High-Yield Bonds (1/2)

| Topic | Private Credit | Broadly Syndicated Loans ("BSL") | High Yield Bonds ("HYB") |
|---|---|---|---|
| 1 ARRANGERS & UNDERWRITERS | Non-bank lenders | Arranged / underwritten by banks and syndicated to institutional investors | |
| 2 INVESTOR BASE | Traditionally institutional investors or high net worth persons | Traditionally institutional funds, private wealth accounts, CLOs[1], insurance companies, banks etc. | Mutual funds, hedge funds, private wealth accounts, insurance companies, pension funds etc. |
| 3 SYNDICATE SIZE | Few lenders (typically 1-4) | Diverse and broad institutional lender base (typically dozens to hundreds) | |
| 4 VOLUMES | > Euro 10 million up to billions | > Euro 200-250 million up to billions | |
| 5 LIQUIDITY | Relatively illiquid, held until maturity | Relatively liquid, can be bought and sold easily | |
| 6 SECURITY | Secured | Secured | Secured or unsecured |
| 7 FLOATING / FIXED | Floating rate | Floating rate | Fixed or floating rate |
| 8 PRICING | Typically wider than BSL | Typically tighter than Private Credit/HYB | Typically wider than BSL |

*Notes: (1) Collateralized Loan Obligation*

# Recap - Private Credit vs. Broadly Syndicated Loans vs. High-Yield Bonds (2/2)

| Topic | Private Credit | Broadly Syndicated Loans ("BSL") | High Yield Bonds ("HYB") |
|---|---|---|---|
| 9 TENOR / REPAYMENT | Typically 5-7 years / Bullet | Typically 7 years / Bullet | Typically 5-10 years / Bullet |
| 10 PREPAYMENT PENALTY | NC[1]1, 101, par | Limited<br>(6-12 months "soft" call) | NC[1] period of typically 50% of tenor, thereafter repayable at decreasing premium (shorter NC[1] period for FRN[2]) |
| 11 RATINGS | External rating(s) not required | Private rating(s) usually required<br>Public rating(s) depending on size | External rating(s) required<br>(typically Moody's / S&P) |
| 12 COVENANTS | Typically maintenance covenants | Cov-lite with springing net leverage covenant on Revolving Facility | Incurrence covenants only |
| 13 EXECUTION | Faster to execute with single lender, typically 30-75 days from inception | Slower execution period, typically 2-3 months from inception | |
| 14 DISCLOSURE REQUIREMENTS | No disclosure requirements | No disclosure requirements | Longer / more costly documentation process (requires OM[3] disclosure and roadshow) |
| 15 AMENDMENTS | Relatively common / straightforward | Relatively common / straightforward | Expensive – requires consent solicitation / payment of consent fee |
| 16 REPORTING | Private reporting<br>(monthly / quarterly + annually) | Private reporting<br>(monthly / quarterly + annually) | Public reporting<br>(quarterly + annually) |

*Notes: (1) Non-call, (2) Floating Rate Notes, (3) Offering Memorandum*

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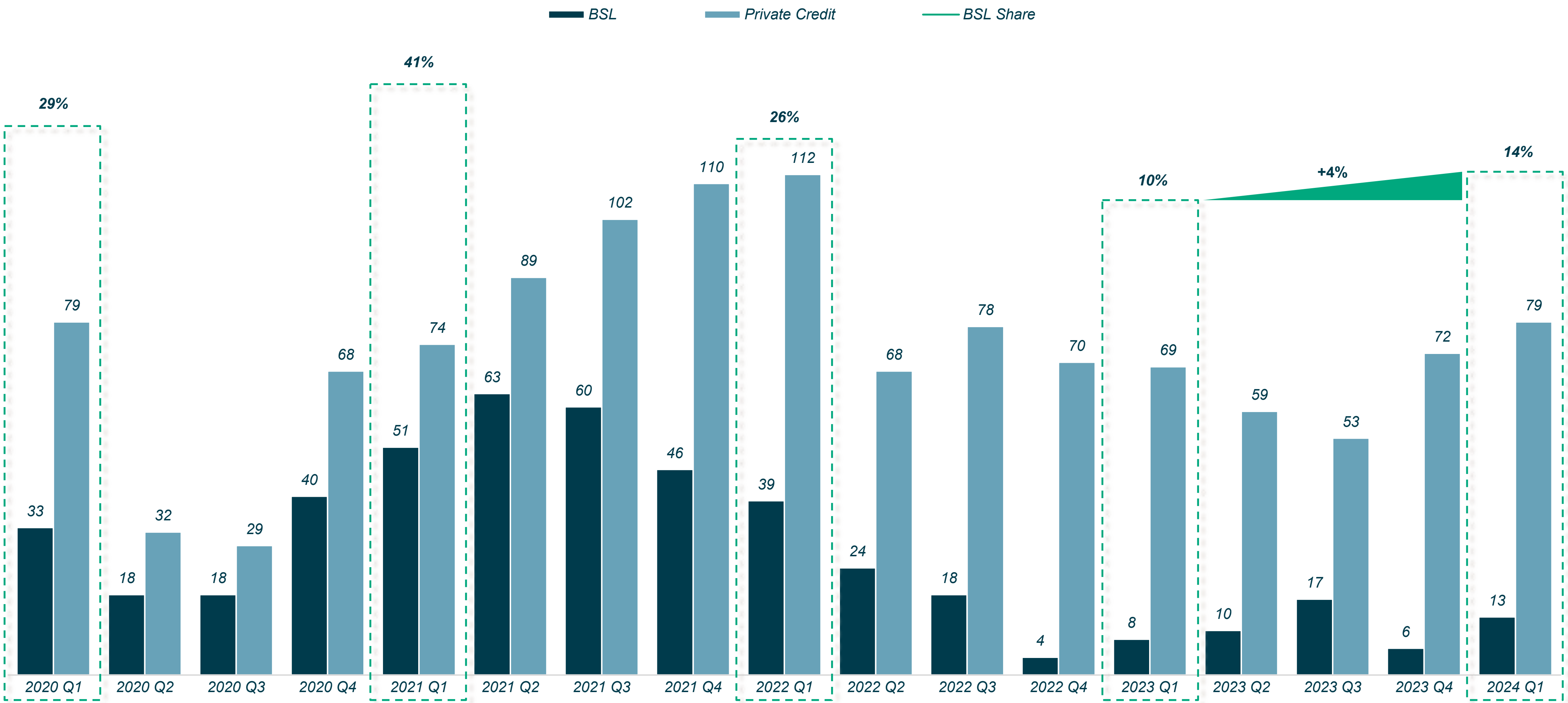
# Since 2021, the share of transactions financed via BSL has reduced, however, recently increased again in light of a supportive market backdrop

*# of LBOs financed via BSL / Private Credit*




Sources: PitchBook | LCD; Data through March 31, 2024 for Europe + US
Notes: BSL refers to broadly syndicated loans; Private credit count is based on transactions covered by LCD News

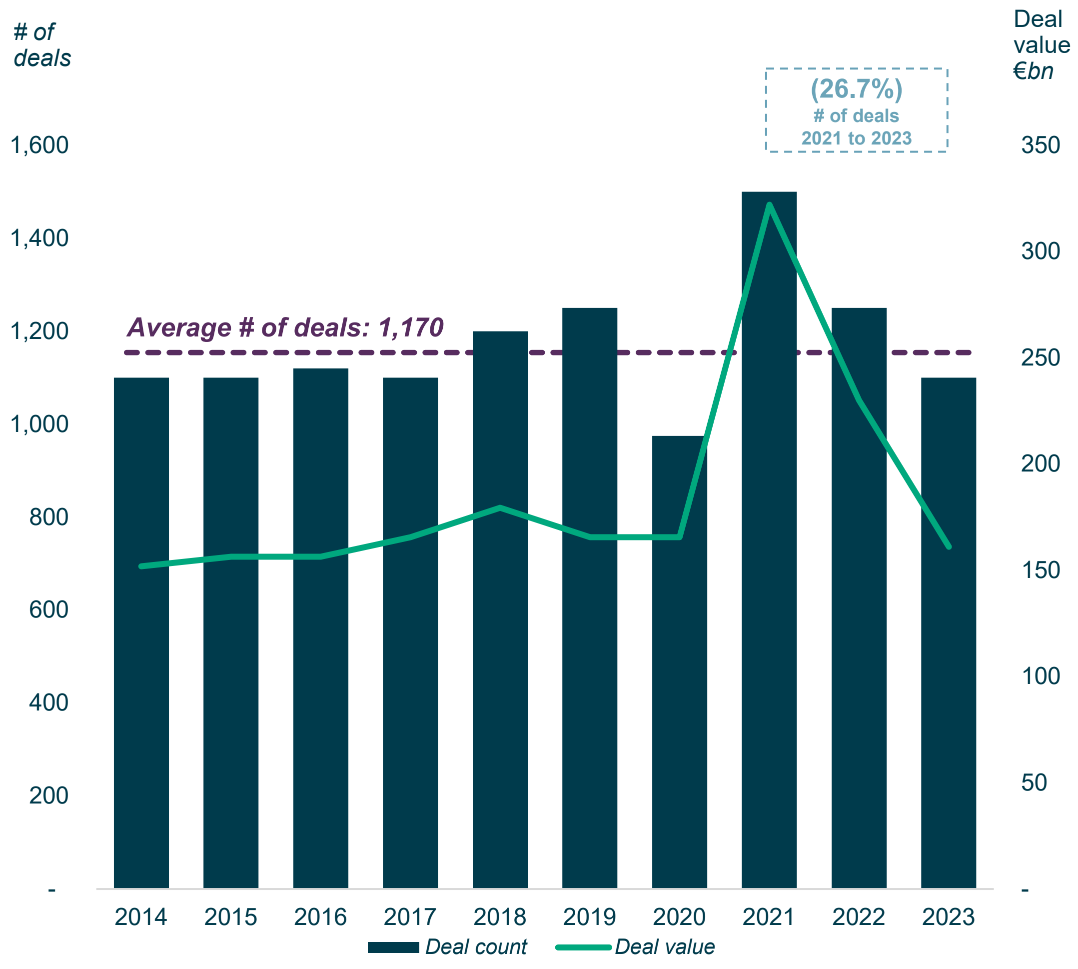
# Key takeaways for the mid-market leveraged finance space

| | | |
|---|---|---|
| 1 | Share of BSL expected to continue to grow across the upper mid-market / large cap leveraged finance space | Larger private credit lenders expected to focus again more on typical mid-market transactions, thereby increasing competition in that space |
| 2 | Sponsors and borrowers in good position in upper mid-market to weigh both private credit and BSL (and/or, if desired, HYB) | Dual track processes possible, thereby creating more competitive tension / pricing arbitrage |
| 3 | Keeping optionality is key for a successful & competitive financing transaction | Lincoln with ability to advise clients across the entire leveraged finance market, from private to public debt and to alternative lending solutions |

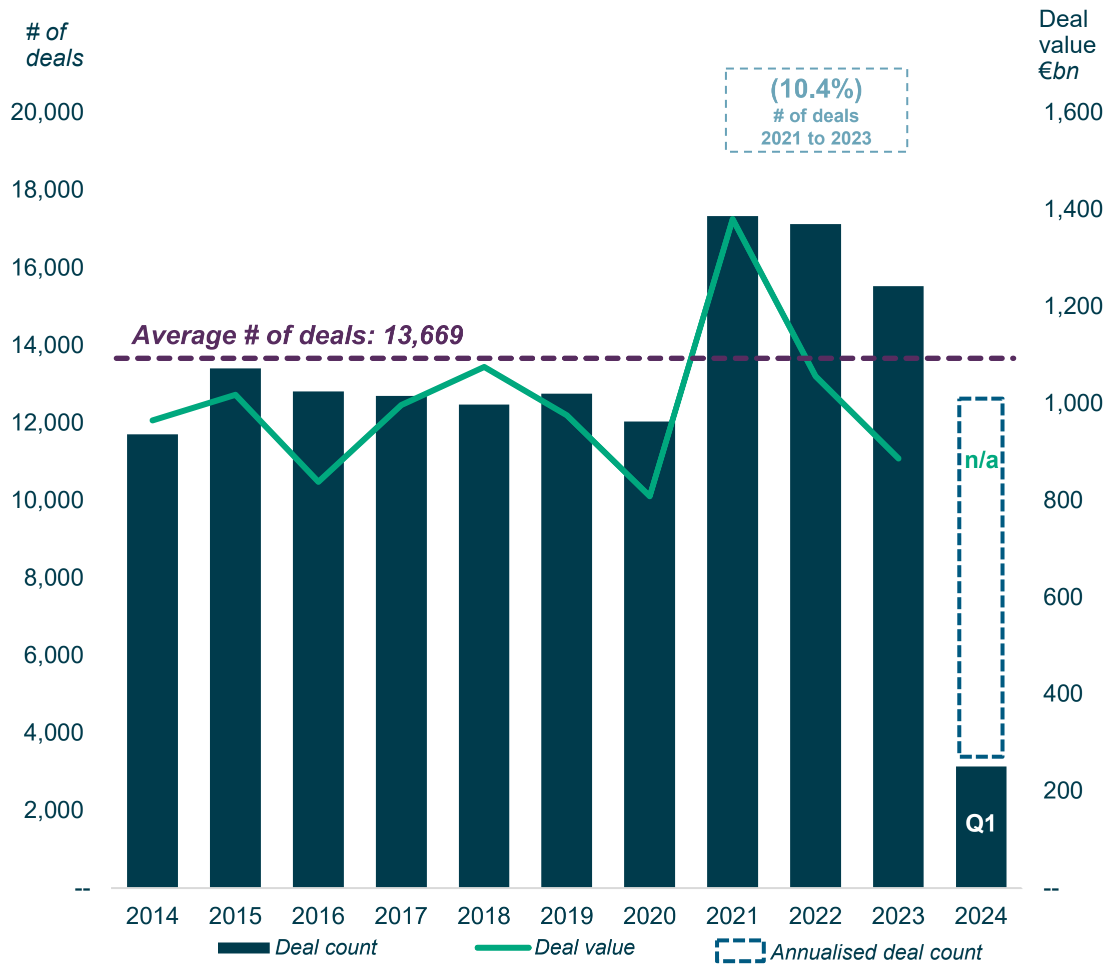
# Recent M&A Activity

# In Europe, M&A volumes declined in 2023 but are expected to recover

European buyout volume and aggregate deal value




European (all sectors) M&A volume and aggregate deal value




Sources: Bain & Company Global Private Equity Report 2024 (USD to EUR converted at 16/05/2024); Pitchbook as at 31/03/2024

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# Deals of all kinds have been impacted by the macro and interest rate environment

There were several dynamics at play across 2023, with deals dependent on bank financing particularly impacted by the interest rates environment…

The lack of affordable leverage has **cut the number of megadeals** (over $5bn) by almost half in 2023

Investors have responded to the macro-economic environment by **using less debt and more equity** overall

The sheer velocity of the interest rate shock was **something few in the industry had ever experienced**

Price multiples declined slightly over 2023 but still sit at c.11x EBITDA in the US and c.10x EBITDA in Europe as **sellers seek to unload the strong assets they are confident will sell well**

Technology deals, which by their nature require less leverage, **maintained their dominant share of total buyouts**

…As we look to 2024 and beyond, pressure is building

The green shoots of recovery are starting to poke through…**even slight cuts are likely to spur dealmaking**

The level and age of the dry powder in GP funds is creating a **heavy incentive to get moving…and around 26% is over four years old**

With exit channels in deep freeze, **unsold assets are piling up in private equity portfolios**

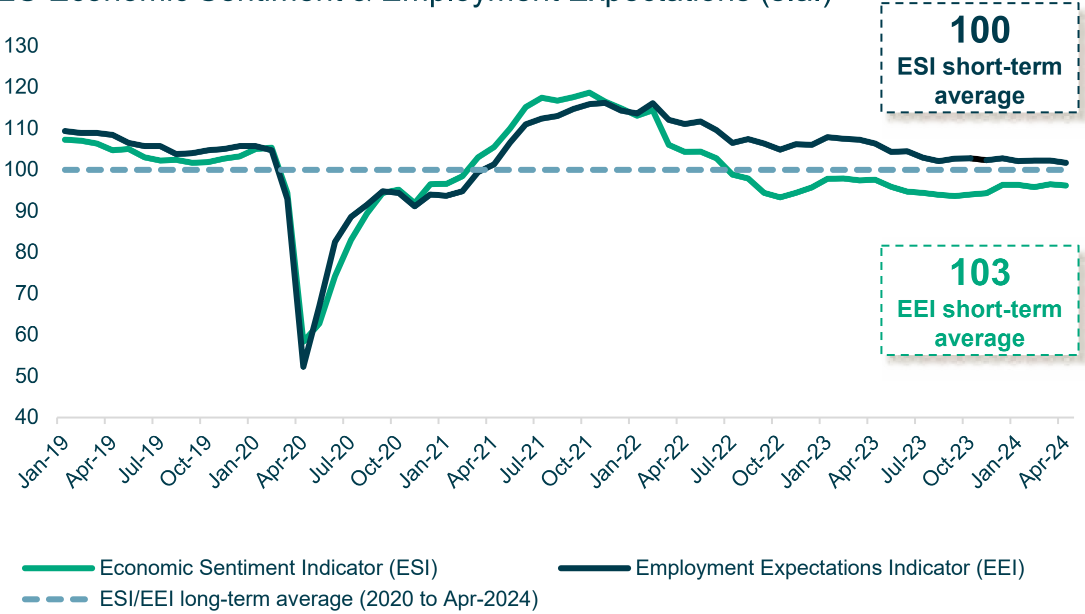
With sponsors struggling to send cash back to their LPs, **2024 will likely be defined by how creative the industry can be**

*Source: As per Bain & Company Global Private Equity Report 2024*

# The economic backdrop is uncertain, but consumer and investor confidence is showing signs of recovery

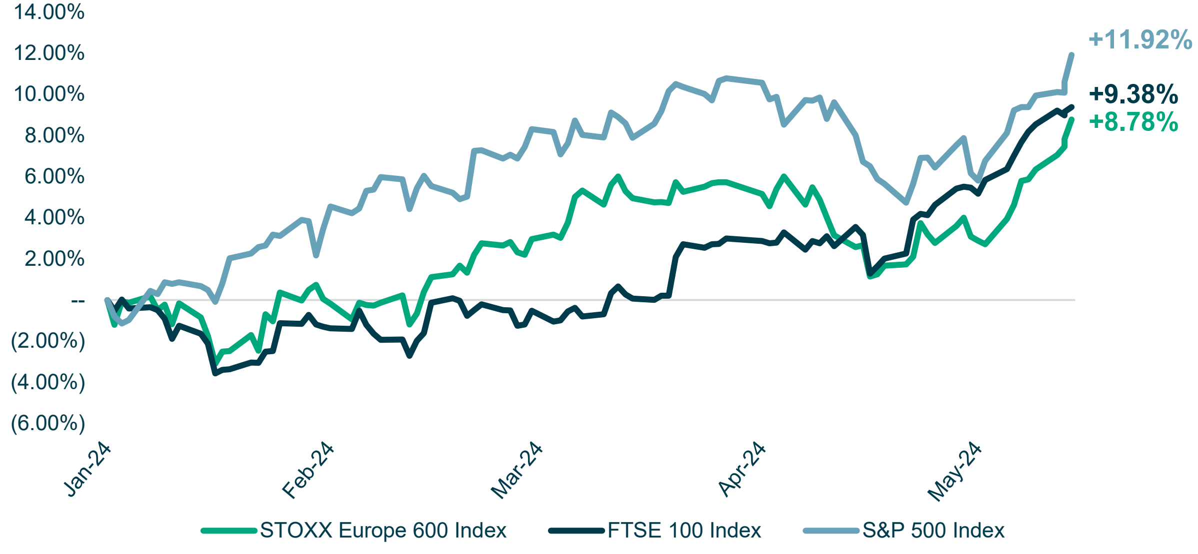
## Economic Sentiment marginally down in the EU and the euro area, Employment Expectations decline

EU Economic Sentiment & Employment Expectations (s.a.)




## The FTSE 100 and STOXX Europe and S&P 500 indices support a more positive sentiment building

Change in index value from 01-Jan-24 to YTD




European Markets
**Euro zone consumer confidence rises to -14.9 in March**

**UK consumers' confidence in their personal finances highest since 2021**
Closely watched GfK survey also points to household caution about inflation
FT

**Hopes high for City deals as M&A market thaws**
Morgan Stanley says potential buyers and investors have built up a war chest of $8 trillion — with Europe in their sights
THE TIMES

***Europe's Policymakers Get Ready to Lower Rates, Regardless of the Fed***
European Central Bank governors are highlighting cooler inflation as a sign the bank could cut interest rates before the Federal Reserve.

*Sources: European Commission services, Financial Times, Reuters, New York Times*
*Notes: Short-term average is from Jan-2019 to Apr-2024*

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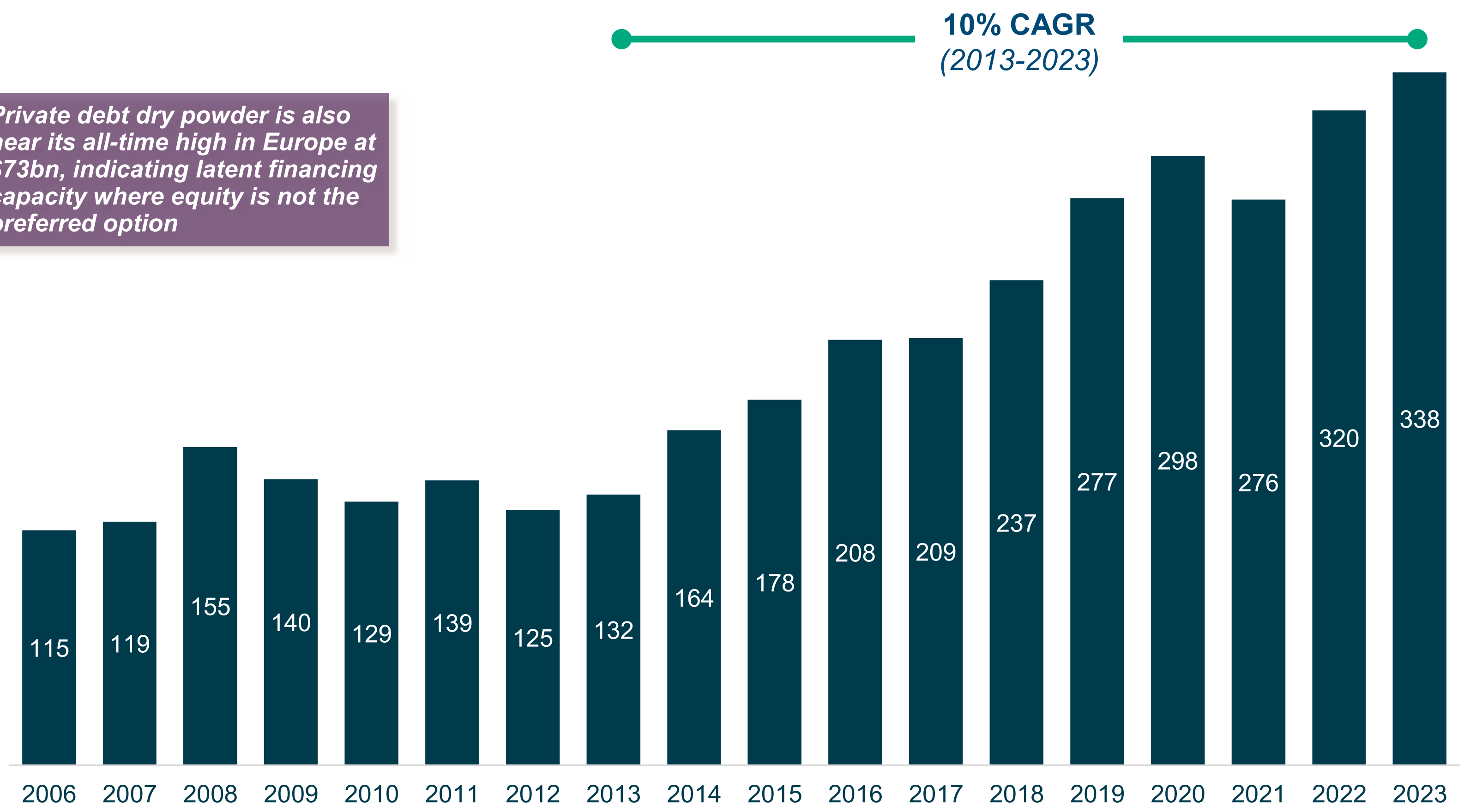
# There is no shortage of private equity or debt dry powder to deploy as confidence returns

European private equity dry powder
*€bn*




***Private debt dry powder is also near its all-time high in Europe at $73bn, indicating latent financing capacity where equity is not the preferred option***

*Source: Pitchbook, as at 31/03/2024*

## Key statistics[1]

**26%**
of global buyout dry powder is now four years old or older

**$1.2 trillion**
Raised globally in fresh capital in 2023

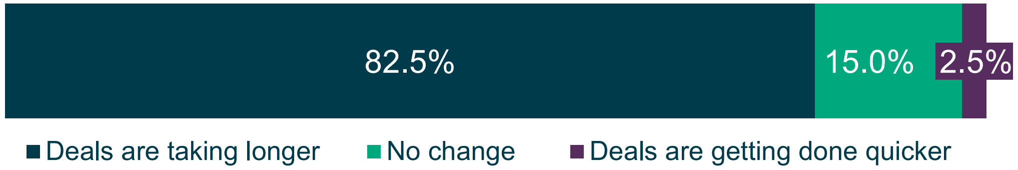
**c.14,500**
funds were on the road seeking to raise $3.2 trillion in capital as of January 2024

**New funds are being raised and old funds are under pressure to deploy, signalling investor appetite remains for high quality assets and M&A activity will accelerate once market conditions improve**

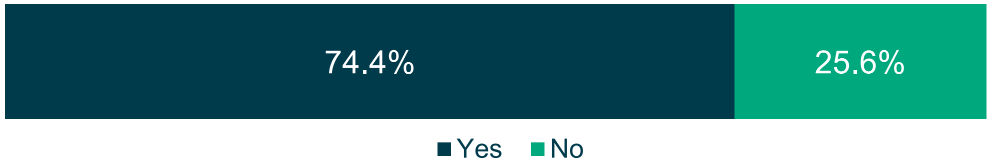
*Note: 1) As per Bain & Company Global Private Equity Report 2024*

# Lincoln views on the current market conditions

How have the duration of deals in the current market changed versus previous norms?
*n = 40*



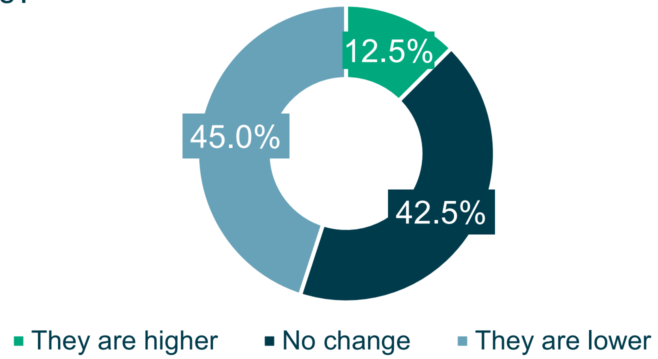

Have vendor expectations moderated on prices / multiples over the last 12 months in your experience?
*n = 39*



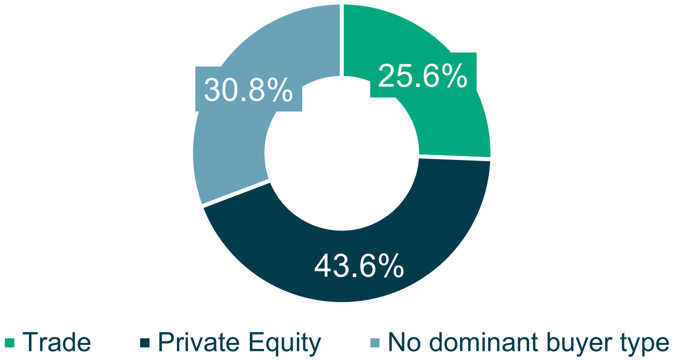

How has the level of structuring changed for deals in the current market versus historic norms (e.g., earn-outs, deferred consideration, roll-over)?
*n = 40*


**Deals are taking longer and vendors value expectations have moderated in L12M…albeit increased structuring suggests bid / offer spread remains**

How do multiples of EBITDA being paid / achieved compare to historic benchmarks?
*n = 40*




In your (or competitor) processes, who are you seeing as most competitive from a buyer perspective?
*n = 39*

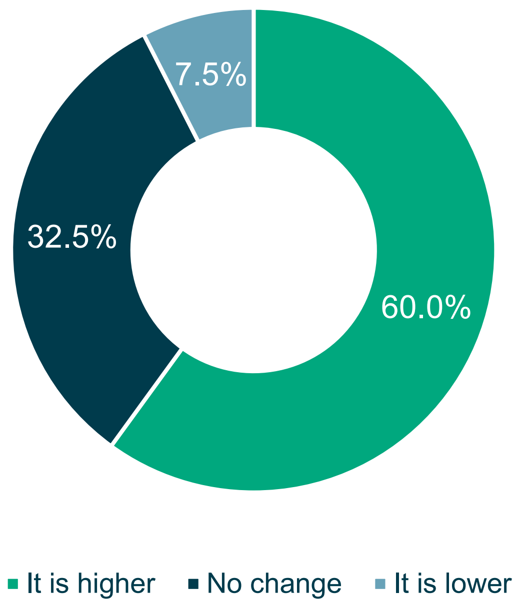



**Valuations achieved remain solid with 55% suggesting stable / higher, with PE the most dominant buyer category**

# 2024 prospects and beyond

How does pitching activity (YTD) compare to 2023?

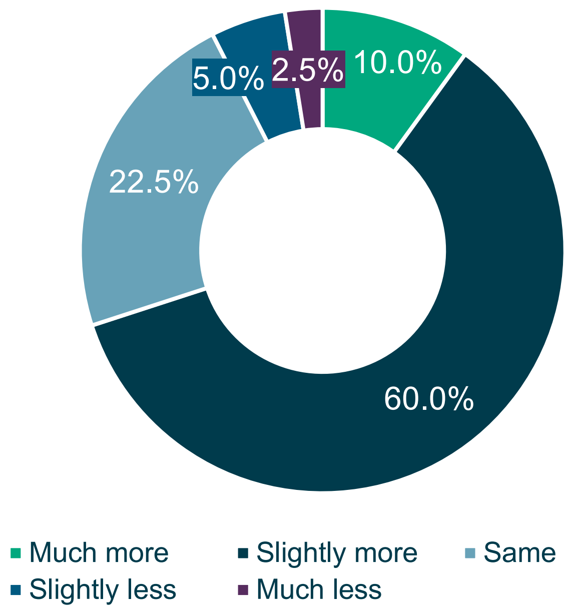
*n = 40*




**Pitch activity has increased in 2024 – we are being engaged earlier ahead of future process launches**

Where do you expect 2024 deal volumes to be versus 2023?

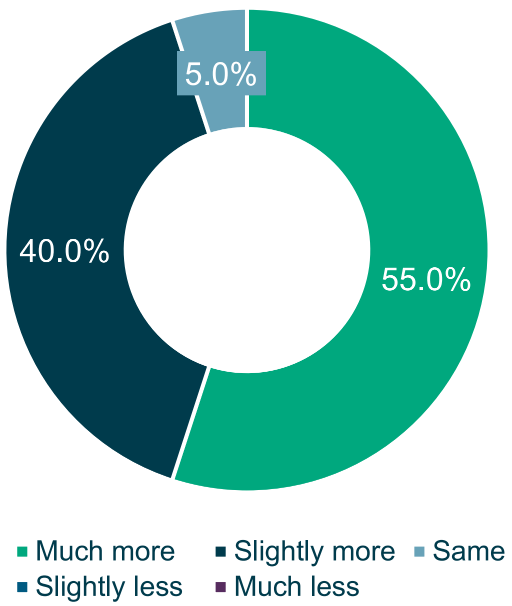
*n = 40*




**We expect the increased pitch activity to convert into 2024 deals, with 70% expecting some growth compared to 2023**

Where do you expect 2025 deal volumes to be versus 2024?

*n = 39*




**Looking further ahead, signalling confidence in an improved macro environment, 55% expect to see many more deals in 2025 vs this year**

*Survey results of Lincoln International Managing Directors (May-24)*

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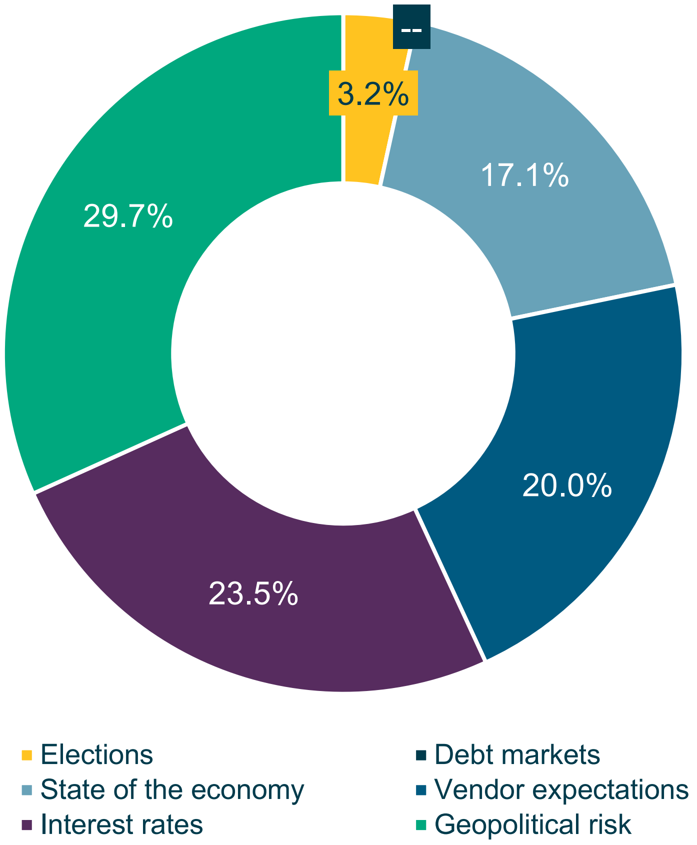
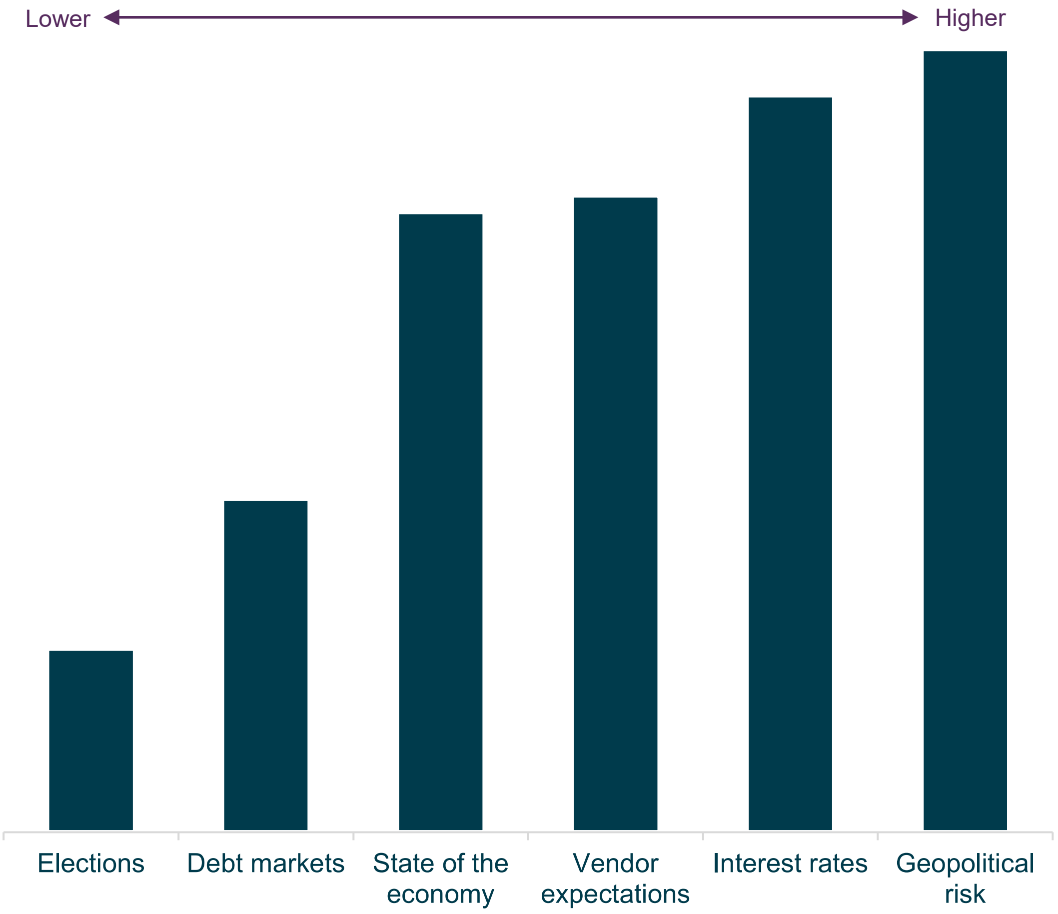
# 2024 prospects and beyond (cont.)

What are the key risks to recovery?[1]
*n = 39*

*Highest risk (% of responses)*




*Perceived "riskiness" on a weighted average basis*




*Survey results of Lincoln International Managing Directors (May-24)*

*Note: 1) Respondents asked to rank the six risk factors from highest to lowest*

# Recent Capital Advisory Transactions

CIKLUM
a portfolio company of
RECOGNIZE
has acquired
Infogen
Acquisition Financing

Bridgepoint
has made a strategic investment in
kerv
a portfolio company of
LDC
Buy-Side Acquisition Financing

OVARRO
a portfolio company of
FFL PARTNERS
has been refinanced
Refinancing

Deutsche Beteiligungs AG
has acquired
ProMik
Acquisition Financing

skerritts
a portfolio company of
SOVEREIGN CAPITAL PARTNERS
has been refinanced
Refinancing

CHEQUERS CAPITAL
has entered into a strategic partnership with
cheops
Buy-Side Acquisition Financing

Reapit
a portfolio company of
AKKR
has merged with
PayProp
Valuation Advisory

ORIENTA
has acquired
bierrebi
with senior loan financing from
Banca Ifis
BPER:
green arrow
SOLUTION
and mezzanine financing from
Riello Investimenti
Acquisition Financing

MiddleGround Capital
has acquired
XTRAC
from
inflexion
Buy-Side Acquisition Financing

KLAR PARTNERS
has invested in
hallo,
a portfolio company of
VORTEX CAPITAL PARTNERS
Sell-Side Staple Financing

Bubbles Bidco SpA
ACQUA & SAPONE
majority owned by
HIG CAPITAL
has refinanced its existing debt with a €440,000,000 term loan and a €55,000,000 revolving credit facility provided by a group of banks
Refinancing

Legal digital
has raised capital from
andera
SOCIETE GENERALE
BANQUE POPULAIRE
LCL
Capital Raise

# Key Contacts

www.lincolninternational.com

**London**
10th Floor
Orion House
5 Upper St Martin's Lane
London WC2H 9EA
United Kingdom

**Frankfurt**
Ulmenstraße 37-39
60325 Frankfurt am Main
Deutschland

**Aude Doyen**
Managing Director &
Co-Head of Capital Advisory, Europe
+44 7951 509824
adoyen@lincolninternational.com

**Nick Baldwin**
Managing Director
Valuations & Opinions Group
+44 7980 738896
nbaldwin@lincolninternational.com

**Florus Plantenga**
Managing Director
Financial Sponsors Group
+44 7894 479274
fplantenga@lincolninternational.com

**Matthew Lee**
Managing Director, Head of UK Office
Healthcare, M&A
+44 7827 957 885
mlee@lincolninternational.com

**Bernhard Aigner**
Director, Capital Advisory
+49 1726318517
baigner@lincolninternational.com