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PRIVATE EQUITY IN FOCUS

In this month's M&A Digest we examine Private Equity in Europe and speak with some leading funds to get their perspectives on the current state of the UK and European private equity market as it relates to Brexit and their outlook for the rest of 2019. With trading volumes down and increasing levels of dry powder to deploy we look at how these private equity firms are succeeding in 2019.

\$222bn

CUMULATIVE DRY POWDER IN
EUROPE

Dry powder remains strong but with increasing capital chasing fewer transaction opportunities Private Equity need to compete more fiercely for assets.

37%

DECREASE IN TRANSACTION
VOLUME Q1 2018 TO Q1 2019

Macro tailwinds such as Brexit are causing transaction volumes to slow across Europe.

12%

INCREASE IN THE
PROPORTION OF BUY AND
BUILD TRANSACTIONS SINCE
2015

Increasingly the Private Equity market is looking to buy and build strategies to create value.

AKKR

ACCEL-KKR

“I'd say the one question mark we have is that we have started to see some sellers deciding to take a pause on launching a formal sale process...”

Exponent

“Brexit has an impact on anybody who is investing in the UK and certainly I'd say over the last 12 months or so the market in the UK has slowed down in terms of volume of transactions.”



LIVINGBRIDGE

“Brexit hasn't impacted our appetite for investing. We invest in high growth businesses in the mid-market which are often disruptive in niches and as such we are comfortable that irrespective of political and economic situation we can grow through.”



WATERLAND
PRIVATE EQUITY INVESTMENTS

“From an investment perspective, as we do invest in the UK, Brexit has become part of our decision making but has not affected our appetite to invest in the UK or elsewhere in general.”

PRIVATE EQUITY IN FOCUS:



We interviewed Maurice Hernandez, Principal at Accel-KKR. Accel-KKR are a leading growth investor HQ'd in the US who invest in software and technology enabled services firms.

What impact has Brexit had on your investment thinking?

Overall, we are long the UK. Brexit has given us a more aggressive stance to deploying capital in the market. We view this as a short-term shock to the system and we can take a longer-term view to the market i.e. 10 years plus.

Equally as a dollar denominated fund we can be more aggressive than others. Most companies that we work with in the UK are international in their growth strategy and revenue and so any shocks to the currency have actually benefitted these businesses given they have expenses in sterling, but revenue based in foreign currencies. That said, Brexit has meant we place a greater emphasis on UK companies that have an international growth path.

We have always had a focus on investing in software companies that provide mission critical solutions. That strategy has played out well for us during this period because most of these companies tend to have very

'sticky' software models. So even though there may be blips across new bookings they generally perform very well in most economic environments.

To date, more than 50% of our time has been spent within the UK market and in fact there may have been a slight increase as we see other private equity firms take a step back. We do also continue to look at certain Northern European geographies, namely Scandinavia, and the Benelux region. From a sector standpoint we still like software companies that serve traditional markets.

How are you seeing current portfolio company performance?

Overall, our companies have continued to perform well in particular our companies which focus on mid-market customers or larger enterprise which have maintained low levels of churn and have helped in terms of positive performance in the portfolio.

In terms of our UK companies where headcount is predominantly in the UK, I would say Brexit has actually helped improve EBITDA, as these companies have resilient revenue streams often denominated in foreign currencies, dollars for example, and expenses denominated in sterling.

“
Overall, we are long the UK. Brexit has given us a more aggressive stance to deploying capital in the market.
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What is your outlook for 2019?

The outlook for 2019 looks very positive. I'd say the one question mark we have is that we have started to see some sellers deciding to take a pause on launching a formal sale process until some of the Brexit noise has subsided so that has affected the outlook a little bit. Again, from our perspective, we are trying to tell them that despite what is going on in the market that we can take a ten-year view and can be more aggressive in terms of deploying capital and finding great management teams that we can back and be an investment partner.

PRIVATE EQUITY IN FOCUS:

Exponent

We interview John Moore, Partner at Exponent Private Equity, a leading UK buyout fund investing in UK and Irish headquartered companies with enterprise values from £100-400m.

What impact has Brexit had on your investment thinking?

"Brexit has an impact on anybody who is investing in the UK and certainly I'd say over the last 12 months the market in the UK has slowed down in terms of volume of transactions, with Brexit being the primary catalyst. Our sense is that this is driven in part by some of the larger pan European funds diverting capital out of the UK and into other markets. On one level this is ok for us in that there is less competition in some regards for assets. You can be sure that a large part of our Investment Committee discussions are on the risks associated with Brexit and what are the mitigating factors against them. Alongside our rigorous approach to downside planning, for the last three years we have also been conducting Brexit scenario preparation.

It is worth noting that a lot of our businesses, although based in the UK, are very international in scope. In our last fund, Fund III, north of 60% of all revenues associated with portfolio

companies were generated outside of the UK. At the moment we are decidedly more predisposed to businesses with an international footprint rather than businesses solely dependent on the UK economy and so less exposed to a cyclical downturn.

While our historical focus has been on UK and Irish headquartered businesses, selectively we are now also considering opportunities brought to us through our networks in Benelux, The Nordics and France."

How are you seeing current portfolio company performance?

"Portfolio performance is very strong. We are typically looking at businesses that have been historically constrained in some way and our investment thesis often involves buy and build, a strategy we see increasingly in the industry. Over the last year or so we have added some 17 businesses to our portfolio companies. Where we might not have been as active going for primary assets in the last 12 months there is still a lot that we can do in the current environment to continue to strengthen the portfolio and the pipeline for add on acquisitions remains strong.

Another theme across our portfolio assets is digital enablement. This can be applied

“*Our pipeline is strong, but as mentioned we have also been very active on the buy and build side and we would expect that to continue.*”

seamlessly across jurisdictions and so reduce reliance on the UK market. You see this playing out effectively in our media investments such as Dennis Publishing and Racing Post."

What is your outlook for 2019?

"The fact that Brexit has been pushed back to the back end of the year has interestingly sparked an increase in our deal pipeline. The UK is the most sophisticated PE market in Europe, and it is going to come back. Our pipeline is strong, but as mentioned we have also been very active on the buy and build side and we would expect that to continue.

Whilst the US competition has always been there in the UK, we are currently seeing more Asian funds in the UK market."

PRIVATE EQUITY IN FOCUS:



LIVINGBRIDGE

We interview Matthew Upton, Partner at Livingbridge, a leading UK mid-market fund investing up to £70m in fast growing companies valued up to £150m.

What impact has Brexit had on your investment thinking?

"Brexit hasn't impacted our appetite for investing. We invest in high growth businesses in the mid-market which are often disruptive in niches and as such we are comfortable that they can grow irrespective of the political and economic situation. Brexit, although highly important, has not changed our investment fundamentals.

Brexit has affected the cadence of deal flow especially in the early part of this year. In terms of where we invest; we have always avoided cyclical verticals anyway and Brexit has heightened our view that this is the right thing to do. Within sectors, there has also clearly been an impact around consumer and discretionary consumer driven businesses, of which are still seeing the repercussions.

Brexit hasn't specifically caused us to proactively target assets outside of the UK be that direct investments or add-ons. However, we are starting to see more opportunities in mainland

Europe and particularly in the Netherlands."

How are you seeing current portfolio company performance?

"In our tech-enabled services businesses there has been very little impact felt by Brexit as these business models tend to be either more insulated or have geographically diversified revenue streams, which mean that there's no obvious impact.

We have carried out Brexit planning across the portfolio, simply to highlight any potential impacts. There will be some currency exposure, however most of our businesses have that exposure hedged.

The only real effect we have felt around the edges is where Brexit has affected domestic sentiment and has meant that the decision-making process of some portfolio company clients has been prolonged, but nothing that materially worries us."

What is your outlook for 2019?

"Looking into the rest of 2019, we are mainly conscious of what Brexit does to the flow of opportunities - there is plenty of private equity money out in the market that is struggling to be deployed. That said we are continuing to maintain our high activity levels in meeting owners and management

“*Looking into the rest of 2019, we are mainly conscious of what Brexit does to the flow of opportunities - there is plenty of private equity money out in the market that is struggling to be deployed.*”

teams of exciting businesses, and are confident that this will yield plenty of investment opportunities in the coming year. Where we have conviction in a sector and on a business, we will back ourselves even in the most competitive of situations to work out how to do the deal.

We do not see funds from North America or Europe competing much with us. It is more prevalent in technology assets, however, given there tends to be quite strict criteria as to what US funds are looking for, we can tell by the nature of the process being run as to whether US private equity will be involved.

In terms of debt, we don't drive returns in our portfolio through heavy use of gearing, so we are at the sensible end of the use of debt. I would say at the bottom end of our equity cheque size there is definitely less appetite at present. The options available when looking for £10m are very limited when compared to say looking for £20m."

PRIVATE EQUITY IN FOCUS:



WATERLAND
PRIVATE EQUITY INVESTMENTS

We interviewed Wouter Roduner, Partner at Waterland Private Equity a leading buy-out investor HQ'd in Europe.

What impact has Brexit had on your investment thinking?

"With nearly 10 years in an economic upcycle, clearly many businesses including our portfolio companies have been doing very well. Brexit for us is thus one of the potential catalysts for a correction, similar to other potential catalysts such as the trade discussions between China and the US.

From an investment perspective, as we do invest in the UK, Brexit has not affected our overall appetite to invest in the UK or elsewhere. Having said that, on certain businesses and sectors, depending on the type of Brexit, the risk and impact can be substantial. We are more cautious to invest in those sectors potentially more affected by international trade changes. Conversely, there may also be companies that benefit from increased trade barriers. Overall however, reduced international trade it won't be a net positive for the economy and businesses.

I guess as it drags on the discussion becomes tiresome. The uncertainty itself becomes an issue; when will it happen, how will it happen, if it will

happen. Assessing impact is very difficult under these circumstances which of course is not beneficial to the type of longer term investment decisions we are used to making."

How are you seeing current portfolio company performance?

"Last year our Digital Tech portfolio continued its impressive growth from the previous year and now is about a third of our overall portfolio. These companies tend to have impressive organic growth relative to many other sectors apart from the acquisitive growth that we typically drive.

The UK is a relatively small part of our tech portfolio; we have made several add-on investments for our current portfolio companies (e.g. Building Blocks and E3 for Dept) but direct investment into UK Digital and Tech businesses is very much on the agenda for us."

What is your outlook looking like for 2019?

"Our review of first quarter figures looks very good as does our outlook for the rest of the year for the portfolio. In terms of new investments, given the economic upcycle, we are hesitant with cyclical sectors. Nonetheless, from an investment point of view,

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Our core focus has been and will be supporting buy & build strategies.

”

looking at our pipeline for new investments it looks very deep in the various geographies in which we operate. So it feels very likely that we will have a record number of investments this year, surpassing last year's record.

Our core focus has been and will be supporting buy & build strategies. In that regards, maxing out leverage levels is seldom the right strategy. As a result, the level of financing that we need typically will be available. There is a lot of attractively priced financing available in the market at the moment so that is beneficial to us as we are trying to get transactions to close as we are mindful that liquidity can be gone quickly in times of downturn.

Whilst there is increased competition in our market today vs 5-10 years ago, we are deeply entrenched into the countries in which we operate. We have long term networks and contacts and a lot of our sourcing is proactive. We still see many opportunities where we have long, personal dialogs with founders and management teams to partner up. For us the challenge in the coming years is establishing ourselves in our newer geographies like the UK and the Nordics with our differentiated partnership approach."

PRIVATE EQUITY ACTIVITY IN EUROPE

Q1 2019 SLOWED

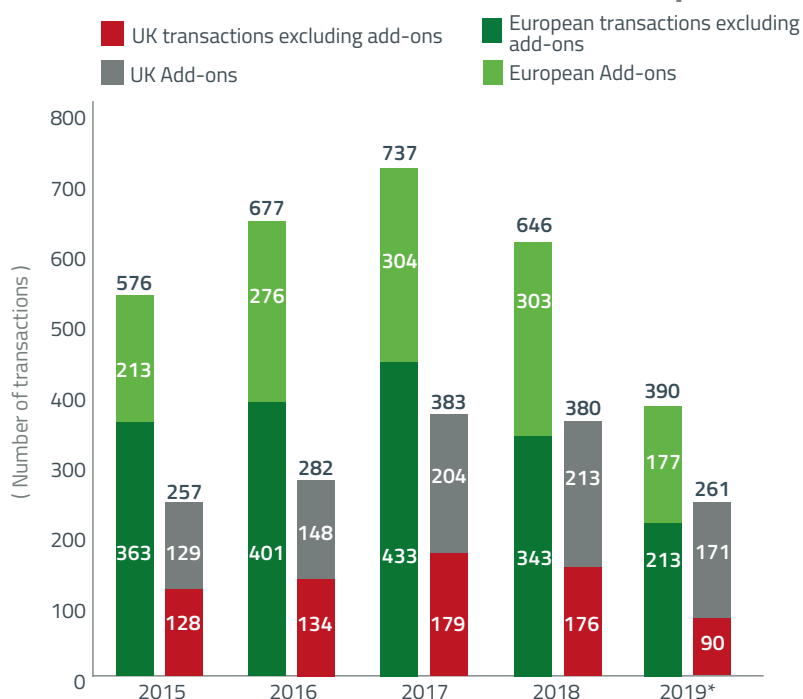
New investment fell from 2017 to 2018 and this trend continued into Q1 2019 which was 37% down on Q1 2018. Uncertainty around Brexit and further macroeconomic uncertainty across Europe is slowing transaction volumes as sellers want to see a more stable market to transact and buyers struggle to assess the impact of an ever changing Brexit.

INCREASING FOCUS ON BUY AND BUILD

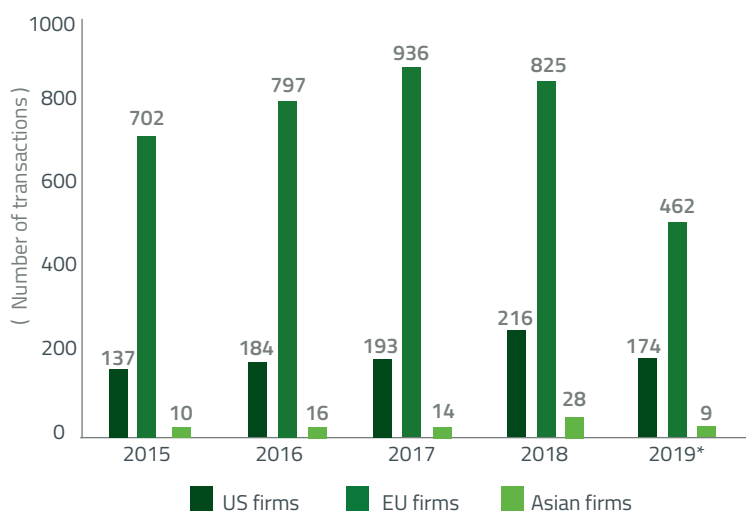
Private equity are looking for ways to create value, by rolling up fragmented markets to reduce costs, increase sales and gain access to larger financing pools.

- Proportion of buy and builds increased from **41% in 2015 to 53% in 2019**
- In Europe add-ons as a proportion of overall deals has increased from **37% in 2015 to 45% in 2016**
- In the UK add-ons as a proportion of overall deals has increased from **50% in 2015 to 66% in 2016**

PE Investments into the UK and Europe



PE Investments by Investor Location



MORE US INVESTMENTS INTO EUROPE

US firms are increasingly deploying capital in Europe.

- The proportion of US PE investments has increased from **16% to 27% since 2015**
- Decrease in investments made by European firms from **83% to 71% since 2015**
- European regulations have slowed Asian investment activity in 2019 **down 68% on 2018**

JEGI | CLARITY PRIVATE EQUITY EXPERIENCE

In the past 18 months JEGI | CLARITY have completed transactions involving private equity. Spanning minority growth spanning minority growth equity investments, growth equity recapitalisations, control/sale transactions, and complex corporate divestitures. See more on the deals below.



Brainlabs is a leading technology-led digital marketing agency.



GTI is the UK and Ireland's leading graduate recruitment and early careers specialist.



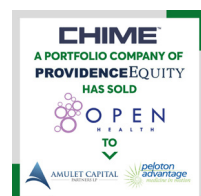
RKD Group is a leading provider of omnichannel fundraising and marketing services to the nonprofit sector.



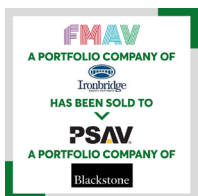
MERGE is a leading integrated healthcare marketing and technology development agency.



ZRG Partners is a leading global executive search firm.



OPEN Health is a leading multi-disciplinary health communications and market access group.



FMAV is a leading audiovisual and live event production company.



FuseFX is a leading independent visual effects studio providing services for episodic television, feature films, commercials, and VR productions.



Turnkey Intelligence is a leading sports research and advisory firm.



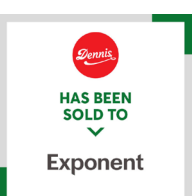
Challenger is a leading performance improvement platform, focused on sales, marketing and customer service in-person and online training.



FC Business Intelligence is a leading B2B events business.



ThinkHR is a leading provider of trusted HR knowledge software and services.



Dennis Publishing is a leading consumer media and e-commerce organisation.



IABH is a leading provider of education for front-line clinicians, treatment center executives, and public health professionals.



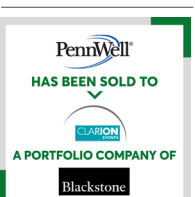
MSI and Morpace are leading market research firms.



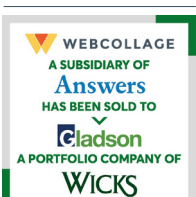
JHI is a leading multi-channel marketing communications, education and data provider serving pharmaceutical, eye care & healthcare professionals.



WS&A is a leading tech-enabled survey and analytics platform providing insights to support corporate planning and business outcomes.



PennWell is a leading integrated B2B events and information company serving the energy, safety, technology and healthcare sectors.



Webcollage is a leading product content management SaaS platform for global brands and retailers.



Kimble Applications is a leading SaaS-based software company for professional services automation (PSA).

"JEGI | CLARITY were truly instrumental in driving a transaction that achieved the objectives of all stakeholders. In any process there are challenges and JEGI | CLARITY rolled up their sleeves and helped us navigate these with their tenacious attitude, experienced counsel and impressive management of all parties involved. We'd have no hesitation in recommending using them!"

Tim Easingwood
Partner, Exponent

NEWS AND EVENTS



Clarity attended OMR in May. Held in Hamburg, this year the conference was attended by 52,000 visitors, over 5,000 brands, 1,500 senior executives, and more than 600 speakers over the two day event.

KEY THEMES EXPLORED

- Big data, keynote speaker and best selling author Yuval Noah Harari warns about overpowering algorithms and the need to think critically about AI
- Brand building, increasingly brands need to engage with customers across all digital mediums in an authentic way to create sustainable relationships

SELECT SPEAKERS

- Patrick Harris, VP Global Agency Development, Facebook
- Matt Lieber, Co-Founder, Gimlet Media
- Joe Pulizzi, Founder, Content Marketing Institute
- Matthias Stadelmeyer, President and CEO, Tradedoubler



Clarity attended Retail Expo Europe in March. Held in the ExCeL centre in London. Europe's largest event for the retail ecosystem.

SELECT SPEAKERS

- Justin King CBE, Former CEO, Sainsbury's
- Helen Dickinson OBE, Chief Executive, British Retail Consortium
- Simon Calver, Head of Investments - Ventures, BGF

KEY THEMES EXPLORED

- How subscription businesses models redefining the online retail sector
- The 'retailpocalypse', how the retail sector will need to change to compete with online competitors
- The relative ROI of TV advertising vs. targeted digital ads

JEGI | CLARITY LOOK FORWARD TO ATTENDING CANNES 2019

We look forward to attending Cannes Lions in June, the leading event globally for the advertising industry.

If you are at the event and would like to arrange a meeting please contact our BD Director Jonathan Goodale via email [HERE](#).



HEY, DID YOU SEE THIS?

PARAGON ACQUIRES HOWARD HUNT BUSINESSES

May 22, 2019

The company has bought Celerity Information Services, ORM and Graft Services as well as the order book and customer base of direct mail operation Howard Hunt (City).

[Read Article](#)



QUILL SOLD BY PANORAMIC GROWTH EQUITY TO WEBEDIA

May 17, 2019

Quill, a UK-based content production platform for e-commerce businesses, has been sold by PE owner Panoramic Growth Equity to French media group Webedia.

[Read Article](#)



KPMG ACQUIRES DIGITAL BUSINESS LOVE AGENCY

May 14, 2019

KPMG Australia has acquired UX, web and mobile development consultancy, Love Agency, which specialises in building solutions for enterprise and government clients.

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