Exploring Global PE Multiples by Sector

Assessing IT, healthcare, and B2C EV/EBITDA buyout multiples

PitchBook is a Morningstar company. Comprehensive, accurate, and hard-to-find data for professionals doing business in the private markets.

Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial

Institutional Research Group

Analysis
Dominick Mondesir EMEA, Private Capital Analyst
dominick.mondesir@pitchbook.com
pbinstitutionalresearch@pitchbook.com

Data
Bailey York Data Analyst

Publishing

Designed by **Kelilah King**

Published on July 1, 2021

Contents

Key takeaways

- While buyout pricing has risen across the board, IT is the most expensive sector. Its median EV/EBITDA multiple reached a peak of 20.0x in 2020, doubling from a decade ago. Sponsors' outsized appetite for enterprise software and IT service assets, as opposed to hardware and consumer-software businesses where perhaps pricing is softer, has been a large contributor to the sector's lofty multiples. Enterprise software and IT service entities came attached with a COVID-19 premium as these companies tend to have solid fundamentals, robust revenue growth prospects, and are extremely sticky, as solutions are typically mission-critical.

- Over the past decade, the healthcare sector has seen multiples increase around 50.0%, although still not as quickly as the IT sector. The effects of the pandemic on the healthcare sector varied greatly, depending on the subsector. For example, COVID-19 paused hospital-based elective and preventive procedures while substantially boosting healthcare technological innovation such as telemedicine. With healthy sector tailwinds including ageing populations, rising income levels, and GPs' increasing focus on the sector as a thematic investing theme, we anticipate further sector pricing pressure in 2021.

- Buyout multiples for consumer-facing businesses sharply dipped in 2020 to their lowest level since 2014, likely driven by the pandemic, as several B2C discretionary subsectors were adversely affected by the lockdowns and work-from-home policies. That being said, the B2C companies that embrace "anywhere, anytime" commerce, build a relevant brand with a purpose over and beyond profit, prioritize direct-to-consumer distribution channels, and optimize supply-chain efficiency will likely see valuations rise quickly in 2021.

- Multiples north of 20x across the IT, B2C, and healthcare sectors are levels needed to win auctions for the most resilient assets. Should inflationary pressures persist across Europe and the US and interest rates ratchet up to 3%–4%, these lofty buyout prices may be unsustainable, and returns in the industry could erode. However, as long as the zero-rate environment continues and current inflationary pressures are transitory, valuations in the industry will remain high but sustainable.

Introduction

Building on our last analyst note, "Exploring European Buyout Multiples,'' in which we found European prices had dipped to a seven-year low while US valuations accelerated to a new high, we will now dive into global valuation differences across sectors. Although there are several ways you can value a business, and EBITDA is not the most commonly used metric in some sectors, this analysis will use the EV/EBITDA multiples approach. We will focus on how industry plays a role in buyout pricing, as PE valuations tend to be more heavily affected by sector choice and the nature of a company's business, as opposed to geography.

We will provide a broad overview of global pricing differentials across buyout sectors as well as valuation dispersion disparities and our 12–18-month pricing sector outlook. In addition, the note will offer more granular analysis within the IT, healthcare, and B2C sectors so as to understand the factors that drive valuations in these industries beyond the depth of management teams, internal systems and processes, identification of compelling acquisition targets to enter new markets or expand internationally, competition, sector growth prospects, and stability of revenue and profits, as these factors can largely be applied to most buyout targets regardless of sector. Further, we will assess the impact of the pandemic on these sectors. It should also be noted that this analysis will focus on mature companies with proven business models and customer bases within each sector.

Multiples

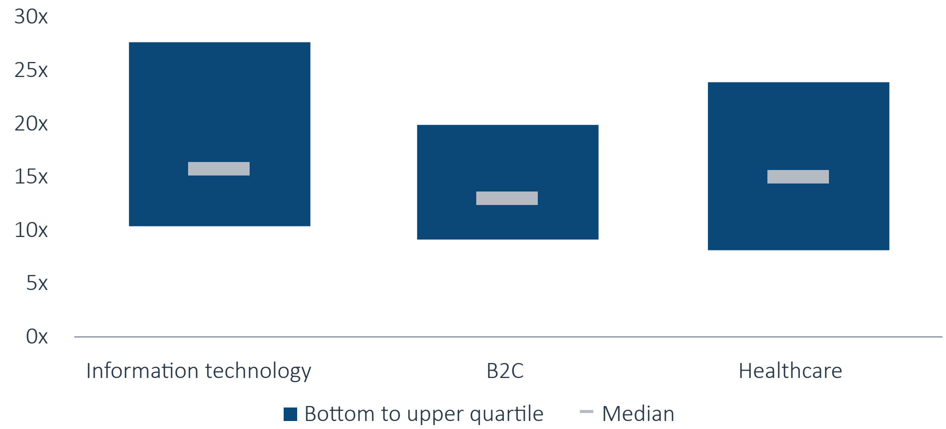
Sector multiples and outlook

Sector	Bottom to upper quartile EV/EBITDA buyout multiple ranges	12–18-month outlook
Information technology	10x–27x	Positive
Healthcare	8x–23x	Positive
Business to consumer (B2C)	9x–20x	Positive

Source: PitchBook | **Geography:** Europe and US
Note: Date range is 2018–2021

Pricing dispersion

2018–2021* EV/EBITDA buyout multiple dispersion



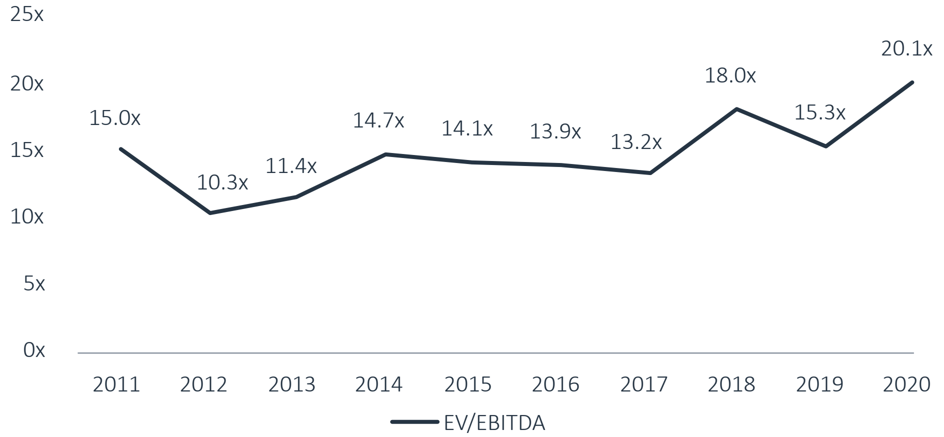
Source: PitchBook | **Geography:** Europe and US
*As of June 3, 2021

While the bottom quartile and median prices are quite similar across global IT, B2C, and healthcare assets, considerable premiums are attached to the best performing IT assets. The sectors' considerable growth prospects, resiliency during market cycles, and sponsors' insatiable appetite for IT entities have contributed to its outsized upper quartile valuations—and even to its lofty bottom-quartile double-digit prices of 10.5x. For example, 38.0% of KKR's (NYSE: KKR) PE deployment from 2018 to 2020 has been in tech-enabled assets (some of which may fall into other sectors under our classification). Moreover, GPs' need to deploy capital and their willingness to pay large premiums for IT assets—driven by the significant firepower of huge dry powder reserves—has pushed multiples higher. For instance, US-headquartered TA Associates Management recently closed TA XIV at €10.3 billion, less than two years after the 2019 closing of TA XIII at €7.6 billion. It is not uncommon for brand-name managers to execute two mega-fund closings in quick succession, which allows them to pay heightened premiums for assets. For example, in Q2 2020, UK-based Boldon James was acquired at an enormous 42.5x EV/EBITDA multiple by a consortium of investors including TA Associates Management and Charlesbank Capital Partners, among others.

The data shows multiples north of 20x across the IT, B2C, and healthcare sectors— levels that would have been almost unfathomable a decade ago—will be needed to win auctions for the most resilient assets. Should inflationary pressures persist across Europe and the US and interest rates rise to around 3%–4%, these lofty buyout valuations may not be justified, and performance in the industry could erode, as higher discount rates typically result in lower exit valuations. However, as long as the zero-rate and excess liquidity environment continues and current inflationary pressures are transitory, valuations in the industry would not likely be overstated. Looking ahead, the high-priced buyout environment means it is paramount sponsors use experienced advisors and operating partners with deep subsector expertise to propel higher risk-adjusted returns, as further multiple expansion is unlikely, and the reliance on revenue and EBITDA growth, as well as margin expansion, will quickly spike.

Information technology

Median EV/EBITDA buyout multiples



Source: PitchBook | **Geography:** Europe and US
*As of June 3, 2021

The global IT median EV/EBITDA buyout multiple accelerated to a new peak of 20.1x in 2020, more than doubling its valuation from a decade ago and making it the most expensive sector. Prices have exceeded 10.0x since 2011, with valuations spiking upwards of 15.0x since 2018. With the MSCI European Information Technology Index and the US tech-heavy NASDAQ powering ahead in 2020, price-to-earnings multiples in many publicly traded tech subsectors were driven to levels above their long-term average, which consequently buoyed buyout valuations. IT assets are not monolithic, and valuations tend to diverge depending on where financial sponsors play in the sector. GPs' outsized appetite for enterprise software and IT services companies, as opposed to hardware and consumer-software entities where perhaps valuations are softer, has been a large contributor to the sector's peak pricing in 2020. These companies tend to be resilient during downturns, maintaining robust revenue growth and rock-solid fundamentals as B2B consumers are less flighty and realize they must swiftly digitize to stay competitive.

Other reasons for the sector's lofty pricing include a decade of rapid innovation around the cloud and IT infrastructure, which has allowed tech companies to come to market and scale at a phenomenal pace. In addition, because many enterprise software products and IT services are mission critical, these solutions are extremely difficult to dislodge once installed, causing high customer stickiness, which translates into more expensive assets for acquirers. And lastly, many companies—SMEs in particular—are still only midway along their technology adoption curve, so the growth prospects of the IT sector remain the highest of probably any sector, and this helps explain the sector's peak median EV/EBITDA multiples.

Key drivers of IT multiples

- Speed of technological change
- Diversification and quality of customers
- ''Rule of 40''
- Viability ratio (LTV/CAC)
- Churn rates
- Customer retention rates
- Nature of earnings (recurring or once-off)
- Size, scale, and geographic coverage

Key COVID-19-related developments affecting IT valuations

The pandemic has materially accelerated consumer and business adoption of technology as the ubiquitous work-from-home orders, which continue to drive e-commerce, cloud, cybersecurity, collaboration platforms, and SaaS implementation, are still largely in place. Many of the pandemic-induced changes in consumer and business behaviour will likely be permanent rather than temporary shifts, which is only going to push valuations higher in the sector. Both corporates and sponsors will continue to double down on IT assets to position their portfolios to take advantage of the digitization megatrend, as the earnings and growth prospects of the industry remain compelling. As a result, we have seen many IT businesses come attached with a COVID-19 premium. For example, we recently saw KKR and Clayton Dubilier & Rice (CD&R) acquire US cloud-based data analytics company Cloudera for €4.4 billion ($5.3 billion), reportedly at a projected 20.0x EBITDA multiple in 2021, despite Cloudera reporting a net loss of €134.0 million ($163.0 million) in 2020.[1]

TTM top five IT buyouts by EV/EBITDA multiple

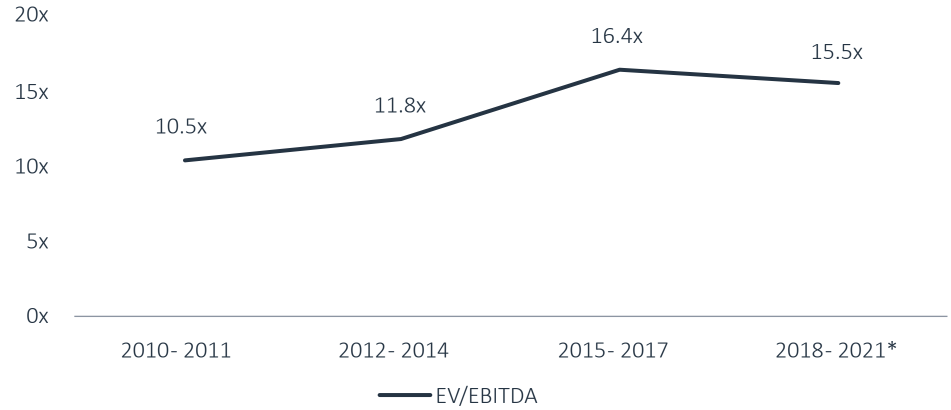
Company Name	Close Date	Deal Size (€M)	Multiple	Industry Group	Country
Boldon James	June 25, 2020	€ 33.4	42.5x	Software	UK
RealPage	April 22, 2021	€ 8,591.8	39.8x	Software	US
Majesco	September 21, 2020	€ 615.7	34.7x	Software	US
TechnoGroup IT-Service	July 1, 2020	€ 187.5	26.7x	IT services	Germany
Virtusa	December 10, 2020	€ 1,674.8	21.6x	IT services	US

Source: PitchBook | **Geography:** Europe and US
*Deals from 1/6/2020–3/6/2021 (trailing twelve months)
Note: Must have a known deal size

1: "KKR/Cloudera: Decent Price for a Disappointing Business," Investor News, June 15, 2021.

Healthcare

Three-year median EV/EBITDA buyout multiples[2]



Source: PitchBook | **Geography:** Europe and US
*As of June 3, 2021

The global healthcare three-year median EV/EBITDA buyout multiple has progressively increased over the past decade, although not as quickly as the IT sector. Since 2010, the sector has seen multiples increase approximately 50.0%, due in part to the industry's resilience during recessions, a surge in PE competition for assets, and a flood of investment capital waiting to be deployed in the space. Some sector trends have caused valuations to gradually increase: First, there has been and continues to be the rise in technologies to improve archaic administrative systems and assist patients and doctors in making informed, data-driven decisions. Second, outsized sponsor interest in healthcare subsectors such as life sciences and biopharma has caused prices to rise in the sector. With some GPs hesitant to assume drug discovery risk, a popular play has been to invest in derivative tools and assets of the life sciences and biopharma space, including cold-chain logistics real estate, packaging entities, and research organizations. And finally, subsectors such as behavioural health, which are extremely fragmented and saw heightened demand due to the pandemic, are ripe for a buy-and-build investment thesis, and this may explain why we have seen pickups in sponsor activity.

Despite the slight dip in multiples over the past three years, we expect healthcare multiples to remain north of 15.0x for a few reasons: Drug discovery will continue to accelerate as highlighted by the US Food and Drug Administration's (FDA) recent watershed-yet-controversial decision to approve Aduhelm for the treatment of Alzheimer's, which will surely act as an industry tailwind. In addition, government pandemic preparedness divisions will proliferate as many experts believe it is a matter of when and not if another pandemic will occur. And finally, technology's growing presence within the sector promises better patient outcomes, more efficient systems, and higher revenues for healthcare businesses.

2: Due to low annual healthcare EV/EBITDA counts, we grouped into three-year buckets to increase EV/EBITDA counts to minimum levels.

Key drivers of healthcare multiples

- Depth of data interoperability
- Government or state contracts
- Proprietary practices or drugs
- Regulatory hurdles
- Exclusivity on product distribution

Key COVID-19-related developments affecting valuations

The effects of the pandemic on the healthcare sector varied greatly, depending on the subsector. COVID-19 paused hospital-based elective and preventive procedures, put on hold traditional clinical trials, and disrupted supply chains for medical equipment and medicines. On the other hand, the pandemic caused a rapid acceleration in healthcare technological innovation such as telemedicine. Further, alternative sites of care, including greater use of outpatient settings and the modernization of clinical trials, were significantly boosted. Valuations in the sector will continue to track higher, propelled by a number of strong secular industry tailwinds including ageing populations, rising income levels, increased life expectancy, and a heightened focus on public health concerns by authorities. Furthermore, rising competition for healthcare assets as more sponsors target the sector for thematic investments will heighten prices. For example, Blackstone (NYSE: BX), the largest alternative investments manager, has pinpointed life sciences as a major investing theme. The pandemic will also likely prompt long-term shifts in patient behaviour, hospital workflows, and supply-chain tracking, which we anticipate will shift profit pools in the healthcare sector, creating new winners and losers and triggering considerable opportunity for GPs. As a result, we see the healthcare sector being a sellers' market, as pandemic-resilient assets have largely come attached with a COVID-19 premium over the past 12 months, just as was the case with some IT assets. We anticipate true-gem healthcare companies will continue to attract astronomically large sums, pushing multiples higher in the sector.

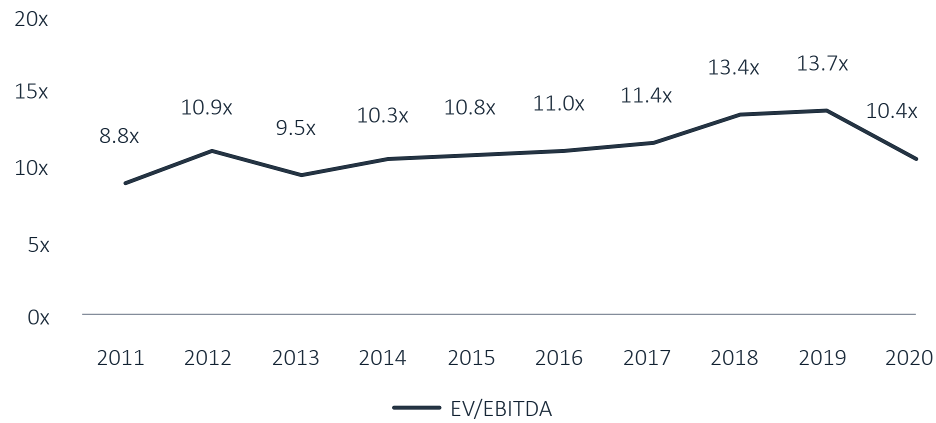
TTM top five healthcare buyouts by EV/EBITDA multiple

Company Name	Close Date	Deal Size (€M)	Multiple	Industry Group	Country
TearLab Corporation	July 9, 2020	€ 33.7	48.0x	Healthcare devices and supplies	US
Lagarrigue	April 27, 2021	€ 388.0	18.2x	Healthcare devices and supplies	France
ADL Bionatur Solutions	February 26, 2021	€ 17.0	18.2x	Pharmaceuticals and biotechnology	Spain
North American Science Associates	September 15, 2020	€ 295.5	17.7x	Healthcare services	US
Absorbest	August 25, 2020	€ 93.2	15.4x	Healthcare devices and supplies	Sweden

Source: PitchBook | **Geography:** Europe and US
*Deals from 1/6/2020–3/6/2021 (trailing twelve months)
Note: Must have a known deal size

Business to consumer (B2C)

Median EV/EBITDA buyout multiples



Source: PitchBook | **Geography:** Europe and US
*As of June 3, 2021

The median EV/EBITDA buyout multiples in the B2C sector have bounced around 10.5x–11.5x over the past decade, with 2018 and 2019 being outsized years. Valuations sharply dipped in 2020 to their lowest level since 2014, likely influenced by the pandemic. Several B2C discretionary subsectors were adversely affected by COVID-19, as demand for such goods tends to fall disproportionately in times of volatility. For example, restaurants, hotels, and transport companies were all hit particularly hard by the lockdowns and work-from-home policies. Considerable changes in consumer shopping behaviour and supply chain bottlenecks also contributed to the lower valuations. Over the next 12 to 18 months, we expect valuations in the B2C market to trend higher. The easing of lockdowns, heightened consumer savings, and pent-up demand, which is already filtering through to the real economy, will contribute to greater valuations for B2C companies.

Key drivers of B2C multiples

- Online footprint
- Business model (direct-to-consumer or B2C)
- Brand recognition, relevance, and purpose
- Barriers to entry
- Capital intensiveness
- Proprietary product or service

Key COVID-19-related developments affecting valuations

The impact of the pandemic on the consumer products and services (B2C) sector saw sizeable divergence. For example, tourism and high-street retail were decimated by the pandemic, while other B2C subsectors including e-commerce, food delivery, and online education thrived despite the pandemic-induced dislocation. COVID-19 has permanently altered consumer behaviour regarding the products and services with which they interact. The B2C companies that embrace the following key macro consumer themes will likely see valuations for their business track higher in the future: First, technology's role in the B2C sector will continue to be front and center, with consumers expecting companies to provide "anywhere, anytime" commerce. More consumers will expect frictionless, quick, and seamless tech-enabled experiences when interacting with products or services, most likely from direct-to-consumer distribution channels. Technology will continue to transform virtual and physical B2C experiences, forcing swift change and innovation from management teams and sponsors. For instance, grocery stores that wholeheartedly embrace online delivery will likely be the winners of the next decade. Second, brand relevance and purpose over and beyond profit has never been more important. The pandemic has accelerated socially conscious consumerism, meaning the average consumer is more likely to interact with brands that have a clearly defined environmental, social, and governance (ESG) strategy. And lastly, innovation around supply chains will play a large role in defining the next decade's B2C winners and losers. Some critical requirements for top performing supply chains will be the successful use of AI and data to drive insights, further digital enablement, onshore parts of the supply chain where possible, and heighten end-to-end visibility.

TTM top five B2C buyouts by EV/EBITDA multiple

Company Name	Close Date	Deal Size (€M)	Multiple	Industry Group	Country
House of Cosmetics	March 30, 2021	€ 33.6	153.4x	Consumer non-durables	Denmark
Front Yard Residential	January 11, 2021	€ 1,968.2	45.7x	Services (non-financial)	US
Dunkin' Brands	December 15, 2020	€ 7,303.0	18.9x	Restaurants, hotels, and leisure	US
Horizontal Software	June 11, 2020	€ 4.3	16.4x	Media	France
Schülke	July 1, 2020	€ 1,000.0	14.4x	Consumer non-durables	Germany

Source: PitchBook | **Geography:** Europe and US
*Deals from 1/6/2020–3/6/2021 (trailing twelve months)
Note: Must have a known deal size