2024

Comparing Private Equity and Independently Held Businesses

Analyzing the business performance of PE-backed and independently held assets based on data from over 15,400 companies in Europe

Gain.pro

EXECUTIVE SUMMARY

Welcome to the Private Equity vs. Independently Held report. In this report, we study over 15,400 businesses and 3,400 deals in Europe to compare the business performance of majority PE-backed assets with independently held businesses (also known as family-owned or privately-owned). Four insights stand out in our research.

Sid Jain
Head of Insights,
Gain.pro

- **Assets owned by PE outperform those independently held.**

  On average, majority PE-backed assets grow their revenue ~3-5% faster per year, with EBITDA margins being 3-5% higher as well. Both CAPEX and FTE growth rates are higher for PE-backed businesses too.

- **PE-backed businesses do more M&A which boosts overall growth rates and margins.**

  48% of PE-backed businesses carry out add-on acquisitions, while only 27% of independently held businesses do so. M&A boosts overall growth rate by 2-3x for the acquirers.

- **PE-backed investments are tilted more towards TMT and Services.**

  PE firms overweight sectors that are high growth, resilient and have plenty of M&A opportunities. They underweight Industrials and Consumer compared to the wider independently held asset pool.

- **PE firms acquire best-in-class independently held businesses.**

  PE firms acquire businesses that grow at least 2x faster than the wider independently held asset pool. These businesses also have higher margins and higher growth rates compared to their portfolio holdings. Waterland, Carlyle, H.I.G. Capital and Oaktree Capital rank as the leading buyers of independently held businesses.

CONTENTS

01 | Company Characteristics: PE vs. Independently Held 04

- Do PE-backed businesses grow faster? Do they also have higher margins?
- Does buy-and-build impact growth and margins?

02 | Sector Trends: PE vs. Independently Held 17

- Which sectors do PE firms overweight?
- How does growth and margin differ by sector?

03 | Acquiring an Independently Held Business 22

- What are the characteristics of businesses acquired?
- What happens post-acquisition?

04 | Leading Primary Deal Investors 28

- What % of overall deals are primary?
- Who are the top 30 investors of primary deals?

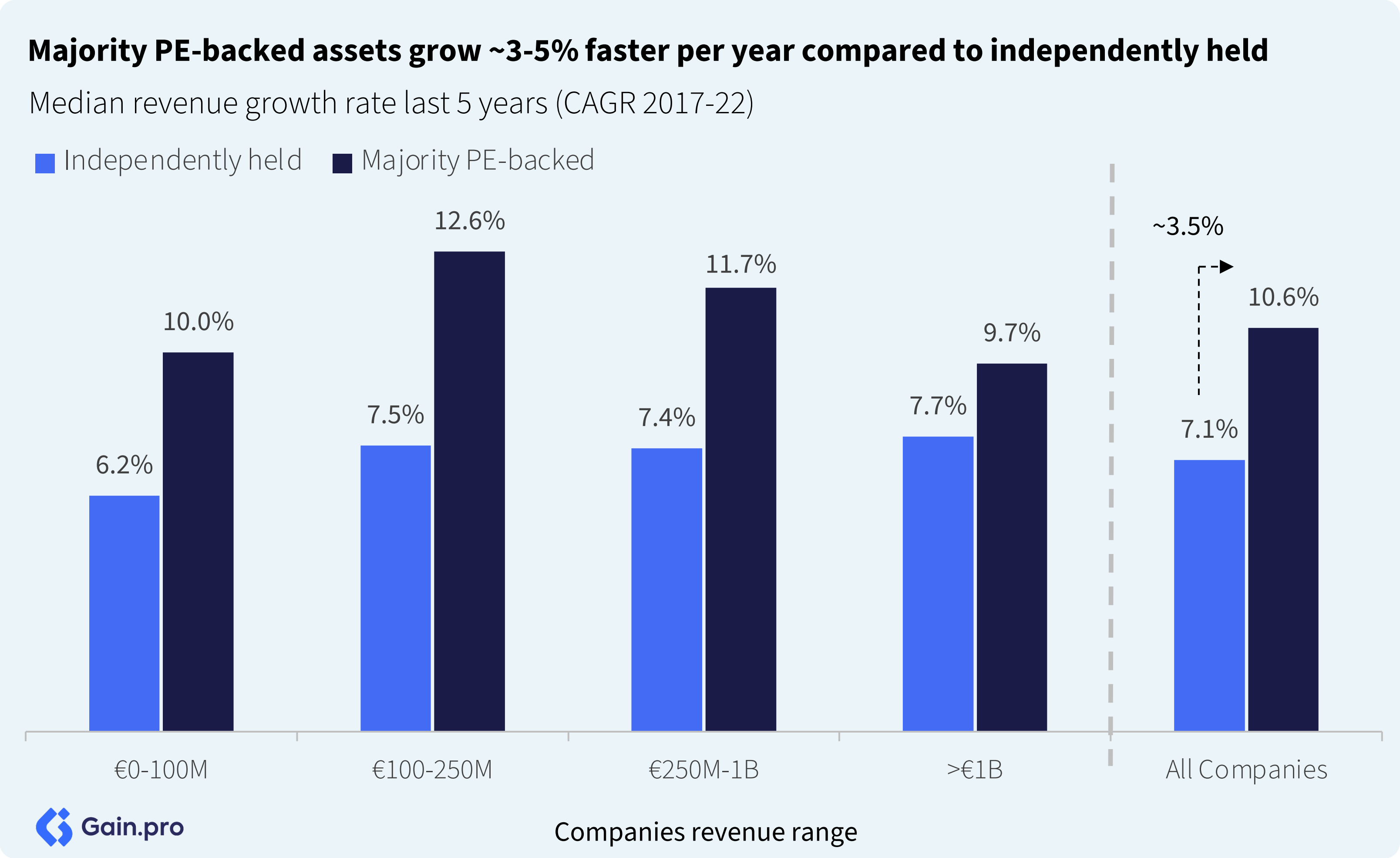
05 | Methodology 33

01

Company Characteristics: PE vs. Independently Held

Gain.pro

PE-backed assets grow their revenue faster



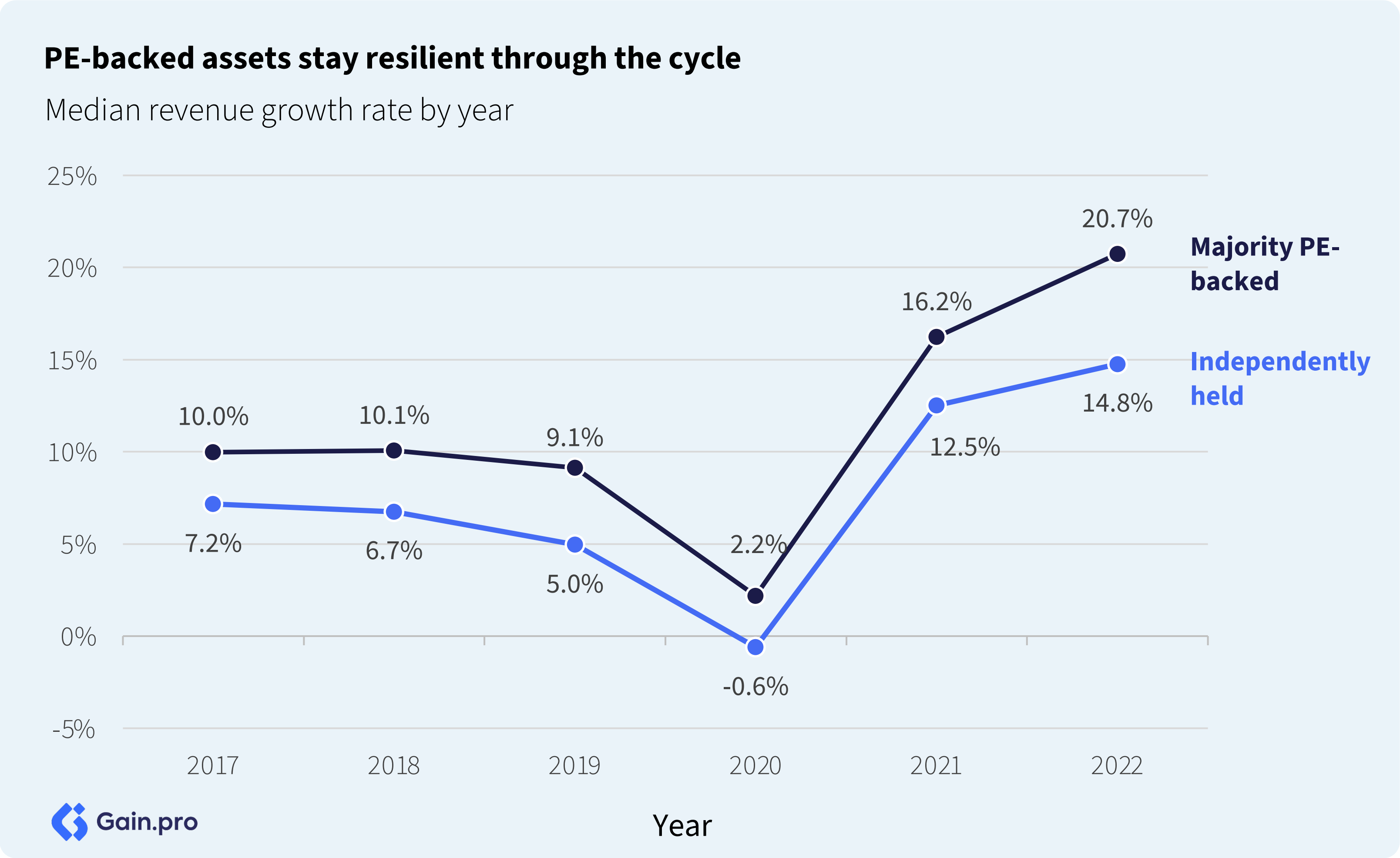
On average, majority PE-backed assets grow their revenue ~3-5% faster per year compared to independently held assets.

This is true for companies of all sizes – big or small. As companies become larger (>€1bn revenue), the growth delta narrows down.

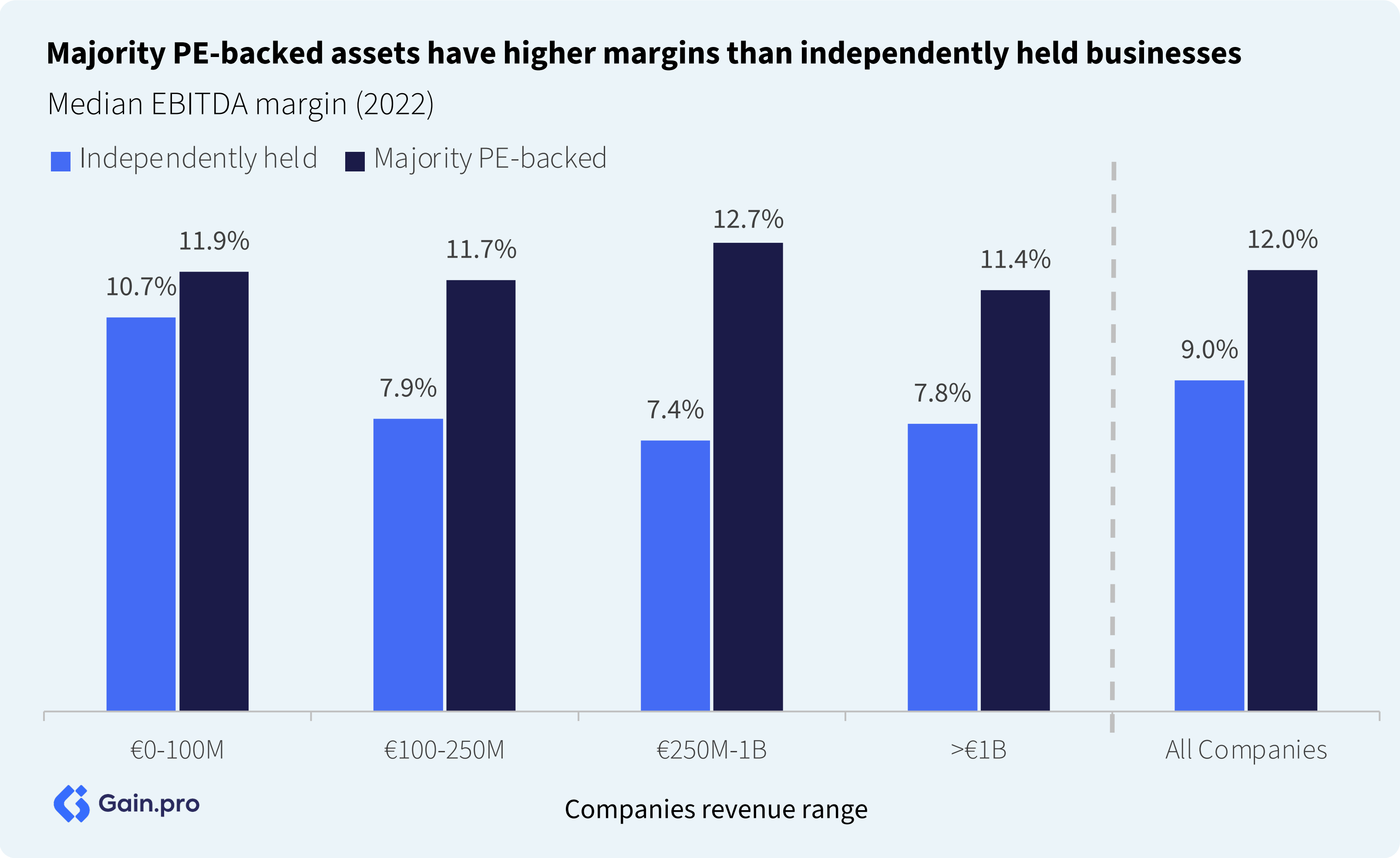
Regardless of the macro, PE-backed assets grow faster

Regardless of the macro landscape, majority PE-backed companies grow faster than independently held firms.

PE firms usually have a more aggressive growth agenda and continue to invest through the cycle.



PE-backed businesses have higher margins



PE-backed businesses have higher EBITDA margins compared to independently held.

Multiple factors contribute to higher margins such as higher operational efficiency and sector composition (PE firms tend to acquire more companies in sectors that have higher EBITDA margins).

Margins have been resilient in the last 6 years

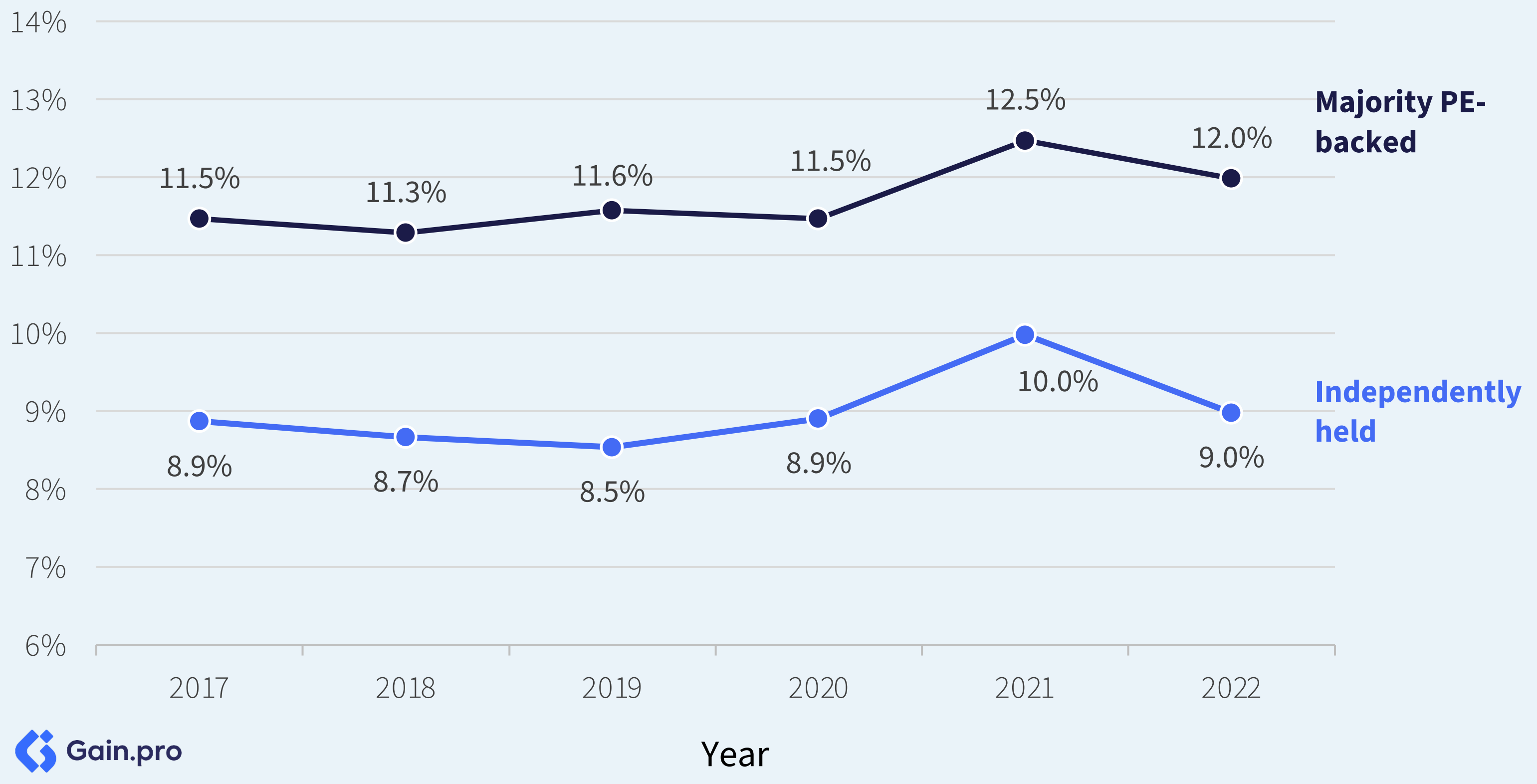
EBITDA margins have been surprisingly stable over the last 6 years.

They did increase in 2021, which we believe is due to post-pandemic demand recovery as spending lagged behind.

Also note how the delta between the margins for majority PE-backed and independently held assets has remained stable over the last few years.

EBITDA margins have stayed stable over the last 6 years

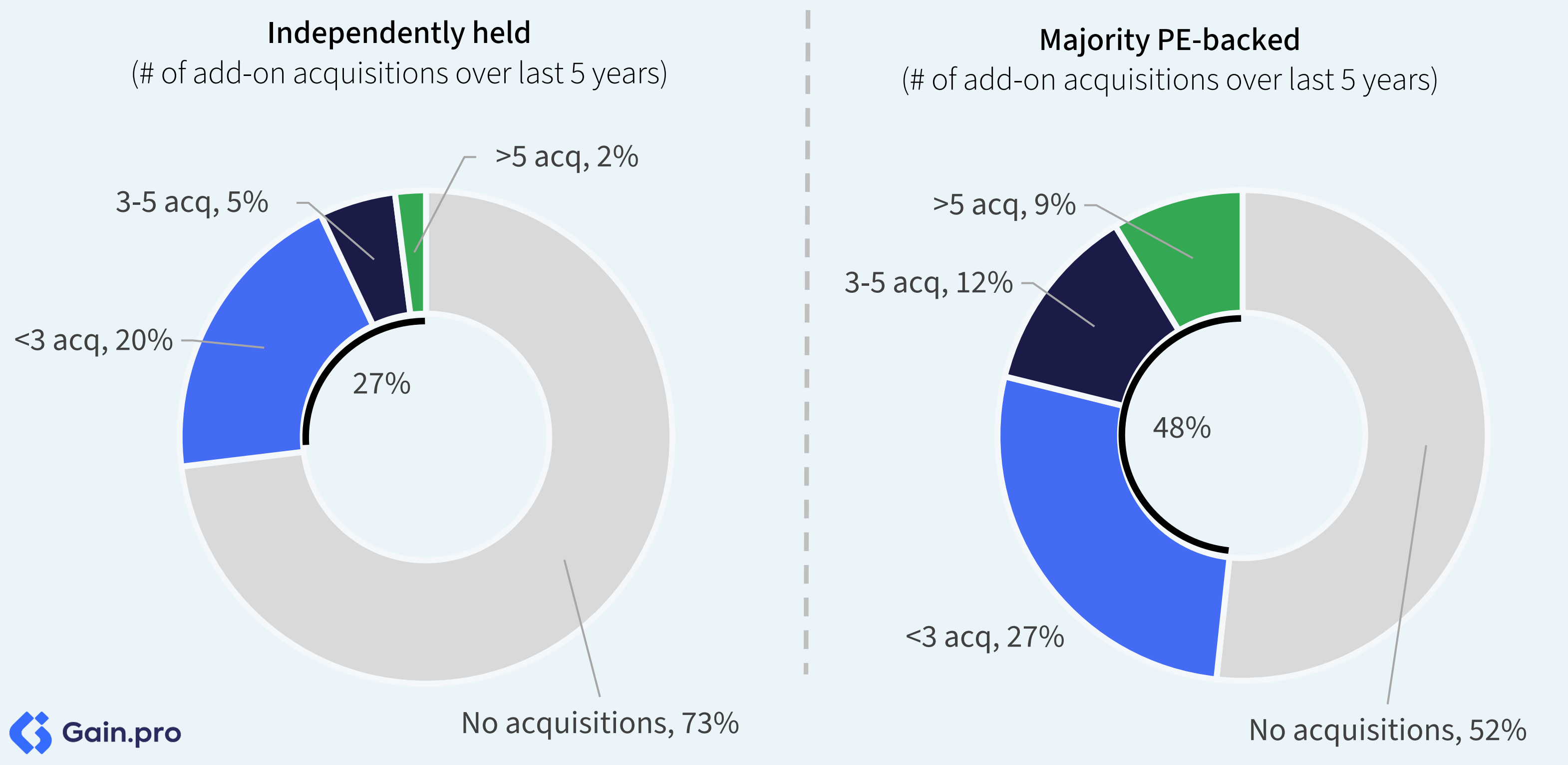
Median EBITDA margin by year



PE backed businesses do more M&A

48% of PE-backed businesses carry out add-on acquisitions (vs. only 27% independently held)

% of businesses that carry out add-on acqusitions



In the last 5 years, 48% of PE-backed businesses carried out add-on acquisitions, whereas only 27% of independently held businesses did.

Overall, 21% of PE-backed businesses acquired 3 or more businesses (vs. only 7% independently held).

M&A boosts overall growth rates

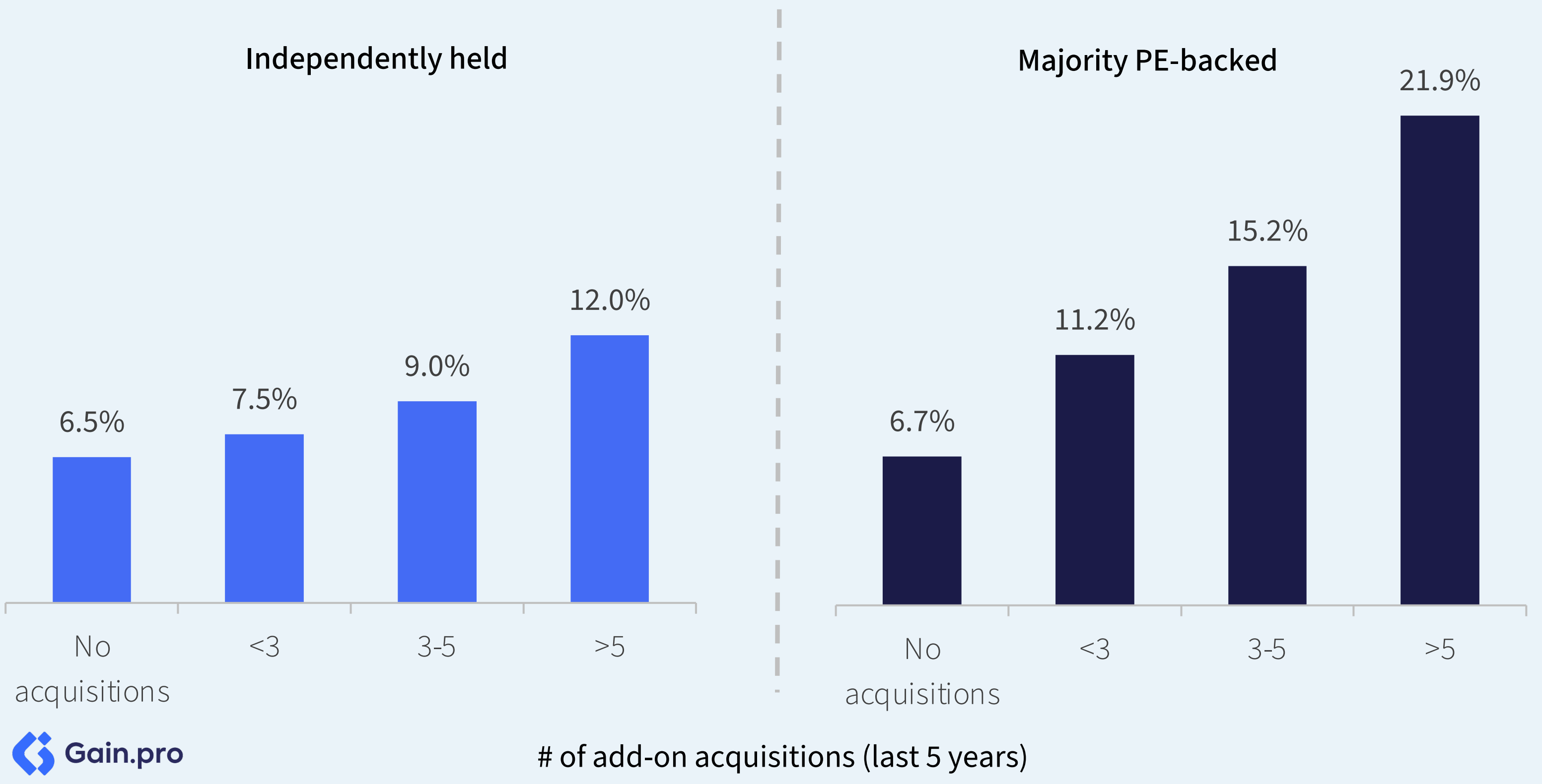
M&A boosts overall growth rate by 2-3x for both independently held and PE-backed businesses.

Majority PE-backed with over 5 add-ons grow at a CAGR of 21.9%. In comparison, those with no acquisitions grow at just 6.7% per annum.

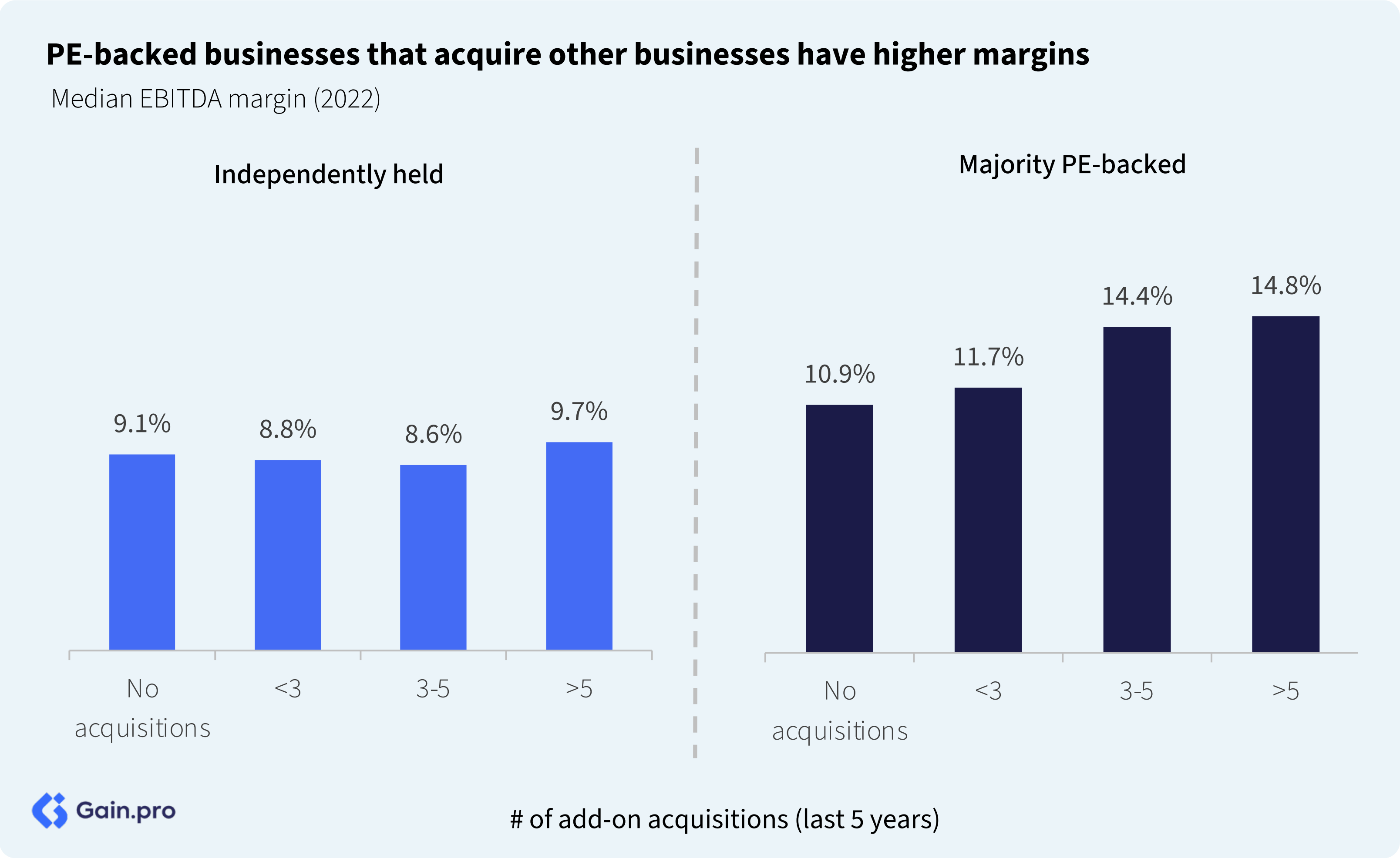
We believe that a buy-and-build strategy is a key tenet in PE value creation. Selecting the right target at the right price can drive a lot of value by accelerating revenue growth, cost synergies and multiple arbitrage.

M&A boosts overall growth rate by 2-3x for both independently held and PE-backed businesses

Median revenue growth rate (5 years CAGR) by # of add-on acquisitions



M&A boosts EBITDA margins



“

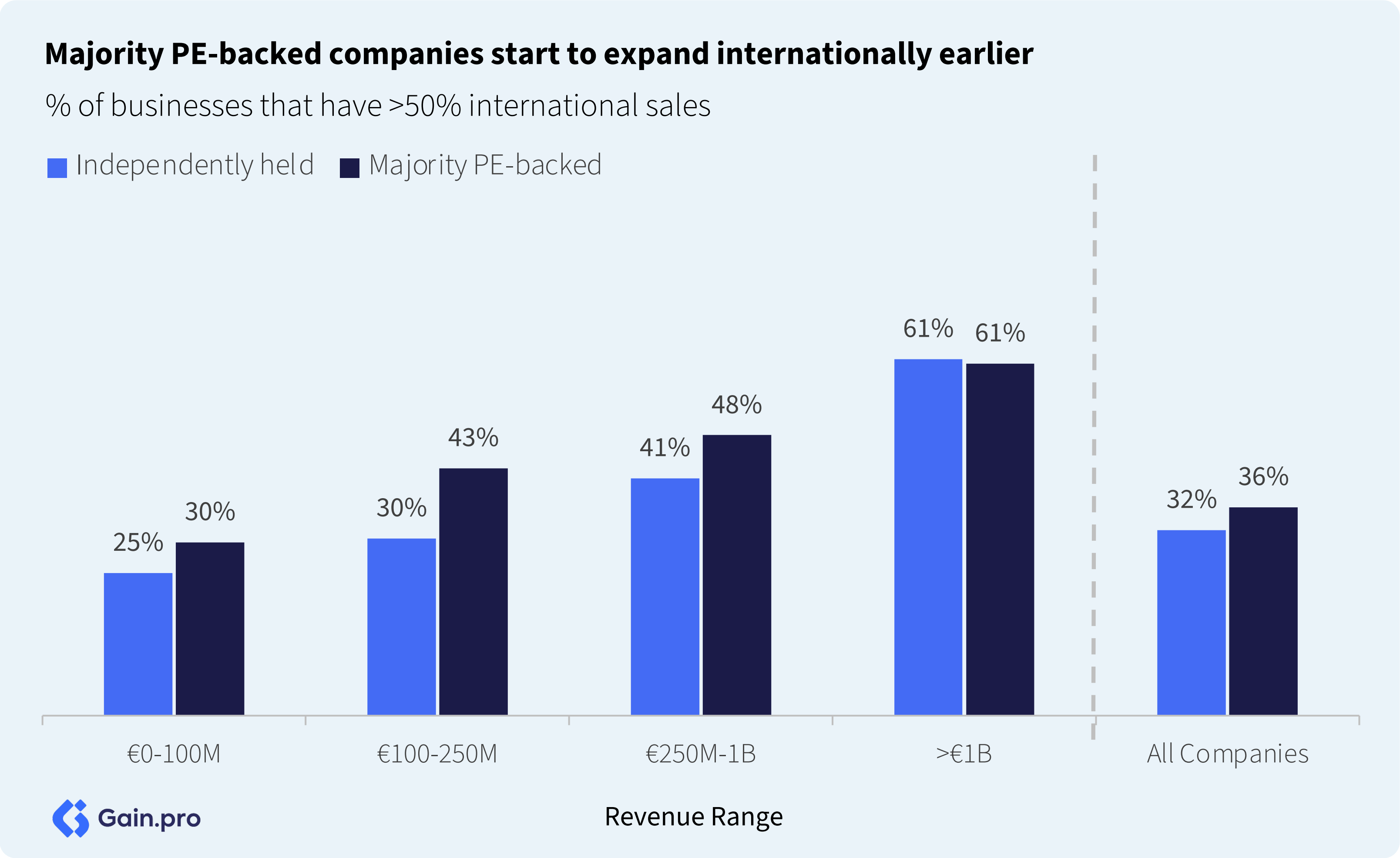
Pursuing value-enhancing add-ons is one of the key tenets to Equistone's investment strategy. Equistone is able to support its portfolio companies by carefully selecting and integrating add-ons in a structured way. With Equistone's support, companies are able to consolidate resources, streamline operations, and tap into shared expertise – resulting in higher margins and growth.

Tanja Berg, *Director, Equistone*

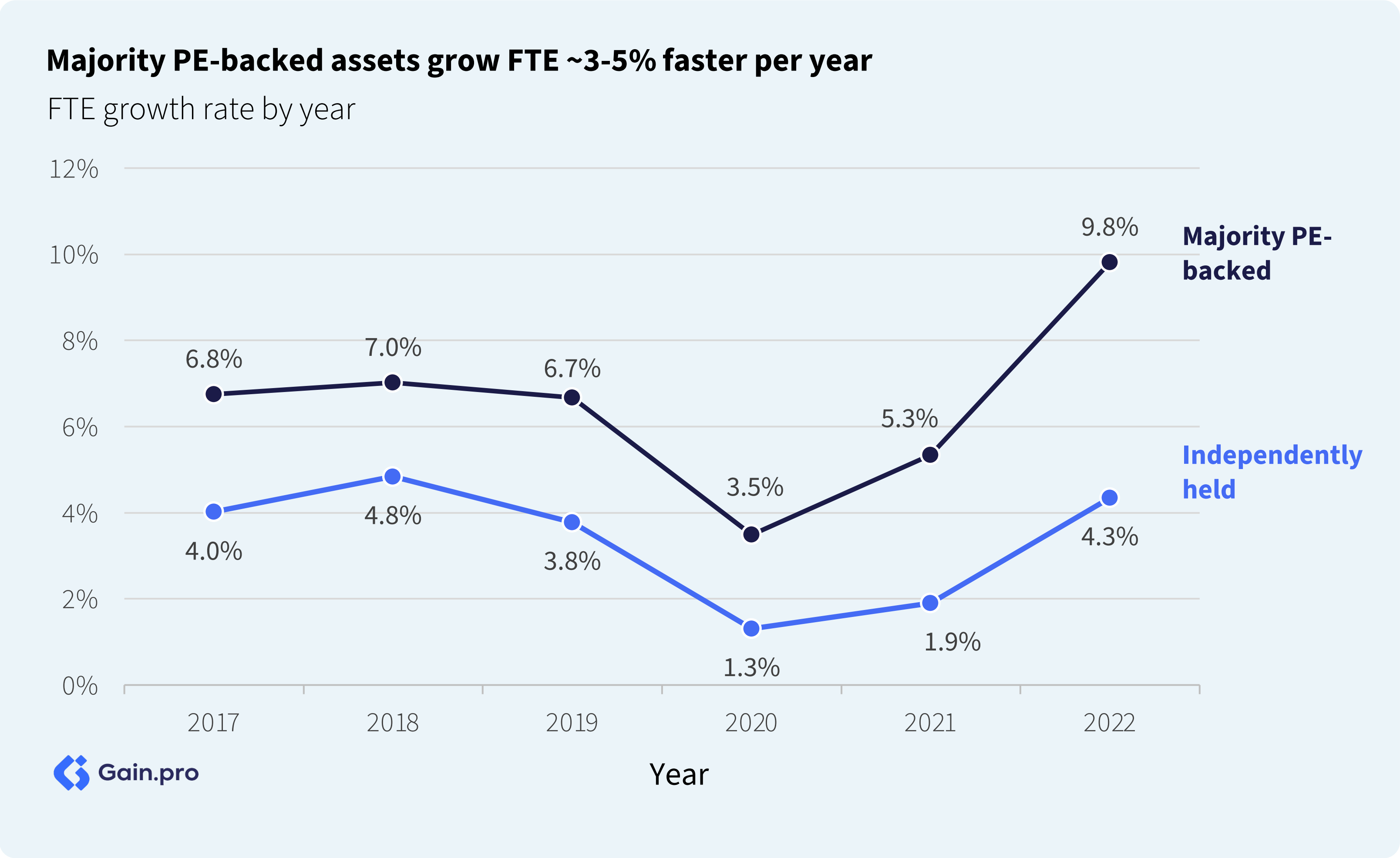
M&A enables PE-backed businesses to expand internationally

PE-backed businesses expand internationally earlier.

43% of PE-backed businesses in the €100-250M revenue range get a significant (>50%) proportion of their sales internationally, whereas only 30% independently held businesses do.



Majority PE-backed assets grow FTE ~3-5% faster per year



Note: Growth delta narrows to 2-3% per year if you compare assets that did no M&A

> PE-backed businesses often inject capital into businesses which helps them expand, innovate and create new job opportunities. They are also more nimble to act. This is evident from the data. Post-COVID, PE firms accelerated their hiring swiftly as the economy recovered, adapting rapidly to the changing landscape.

Philip De Vusser, *COO, Gain.pro*

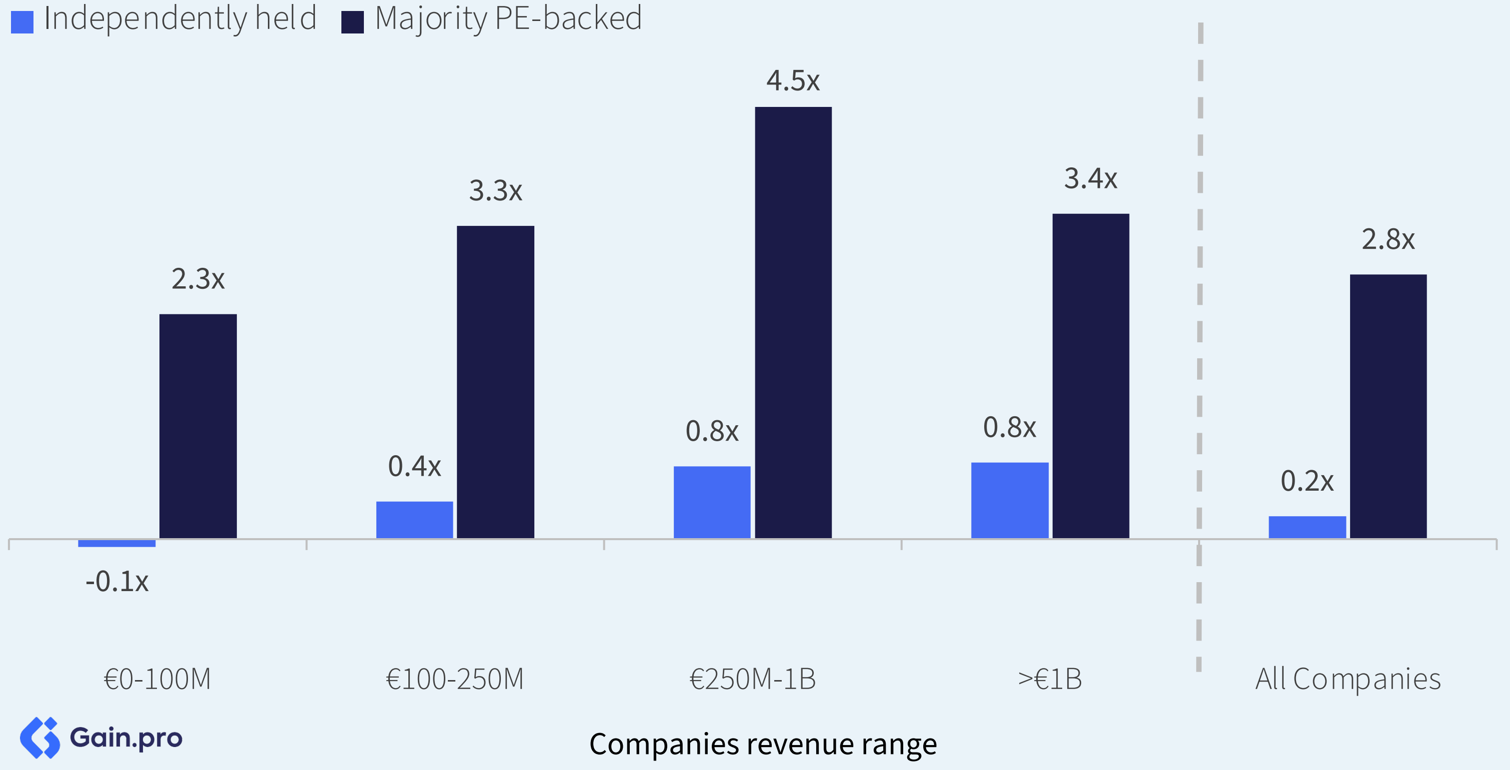
PE-backed assets are more financially leveraged

Majority PE-backed assets have higher debt levels compared to independently held businesses.

Debt helps PE firms amplify their returns while also providing a tax shield through interest rate deductibility in many geographies.

Majority PE-backed assets have higher net debt levels compared to independently held

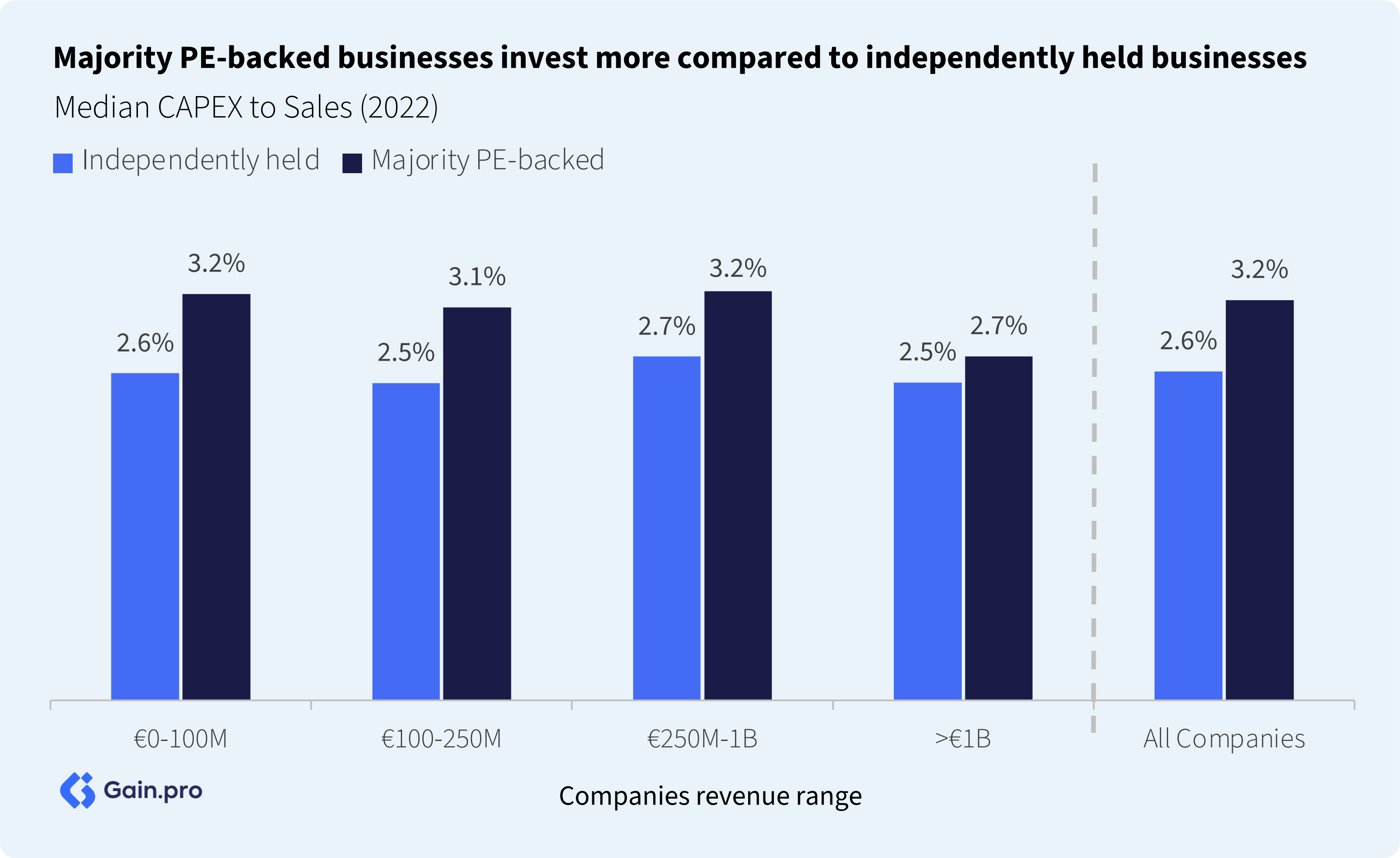
Median Net Debt by EBITDA (2022)



PE-backed assets invest more into their businesses

CAPEX levels are higher for majority PE-backed businesses.

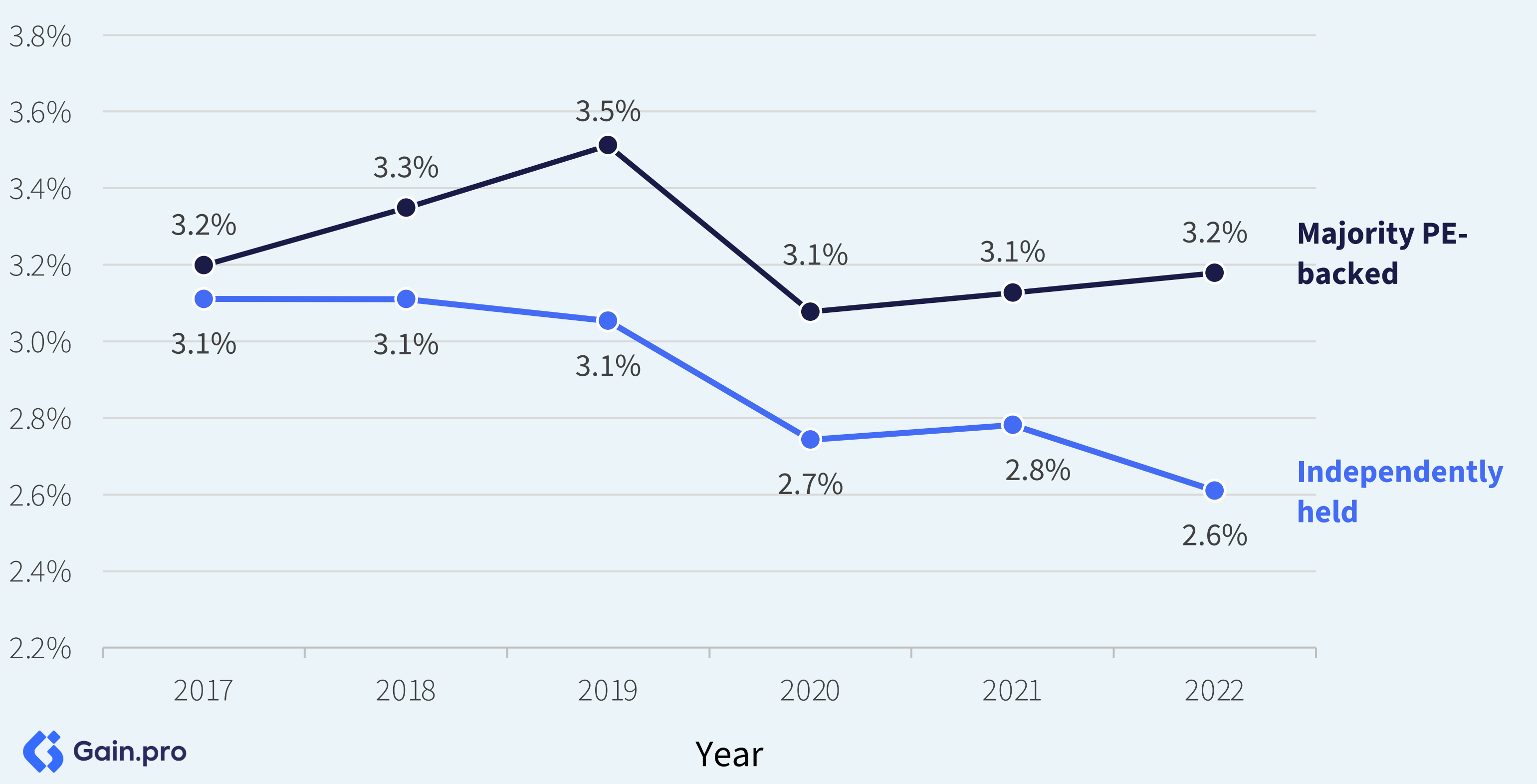
We believe this is because PE firms invest in new technologies and upgrades to enhance efficiency and chart a path for future growth.



CAPEX has stayed resilient in the last few years

CAPEX has remained stable for majority PE-Backed businesses

Median CAPEX to Sales



"Across our portfolio, investing back into the business through R&D and CAPEX is more than just an investment; it is a strategic commitment to sustained growth and future-proofing the business. It's key to staying competitive in a constantly evolving world. Besides, we can see that R&D increases as a percentage of revenues in all our portfolio companies following our investments."

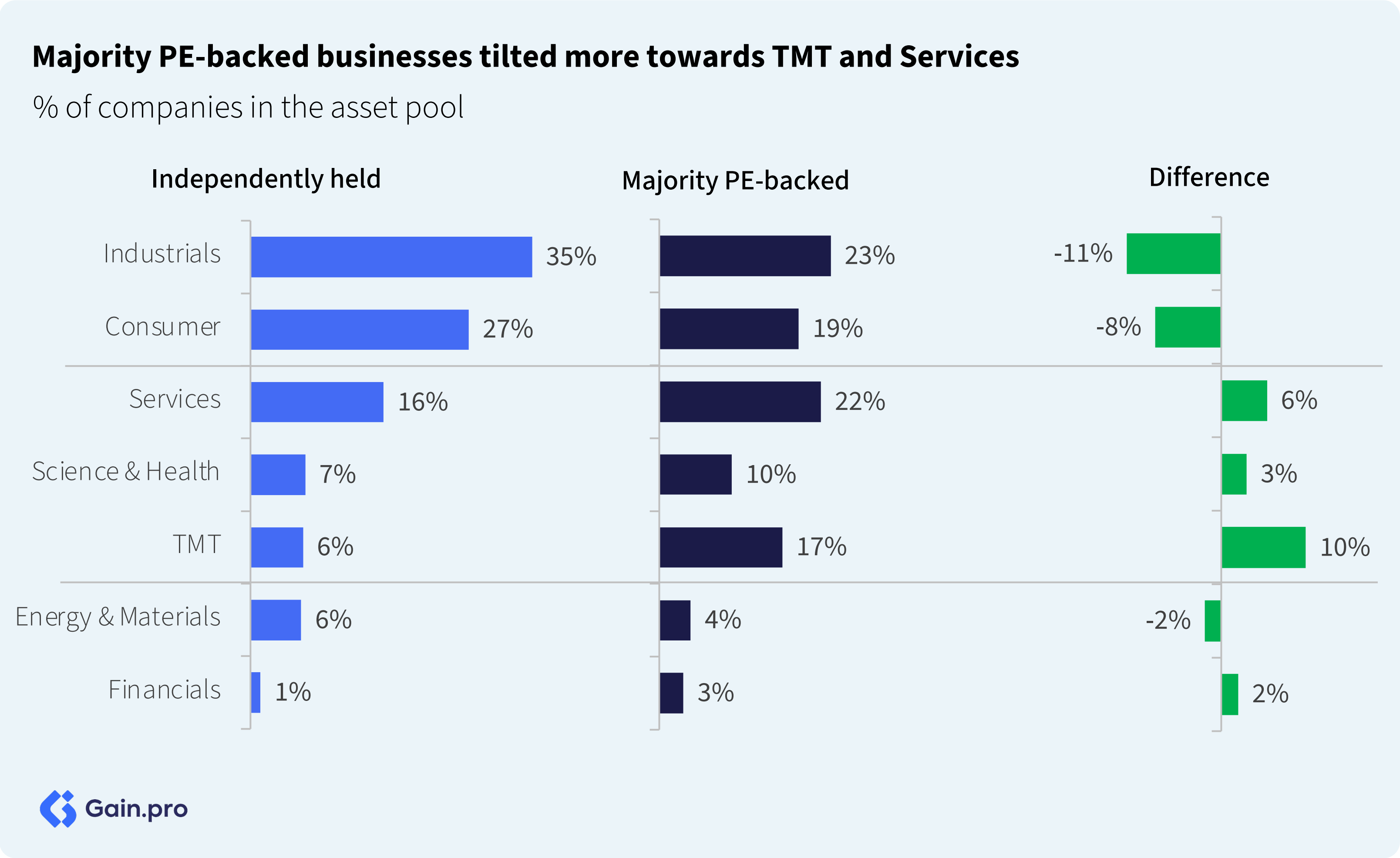
Benoit Ficheur, *Partner, Astorg*

02 |

Sector Trends: PE vs. Independently Held

Gain.pro

PE-backed investments are tilted towards TMT and Services



Compared to independently held assets, majority PE-backed assets are tilted more towards TMT and Services.

This is expected as PE firms want to invest in sectors that are high growth and more resilient.

As you would expect, they underweight lower margin sectors (such as Industrials) that are cyclical, have less M&A opportunities while also being less cash generative.

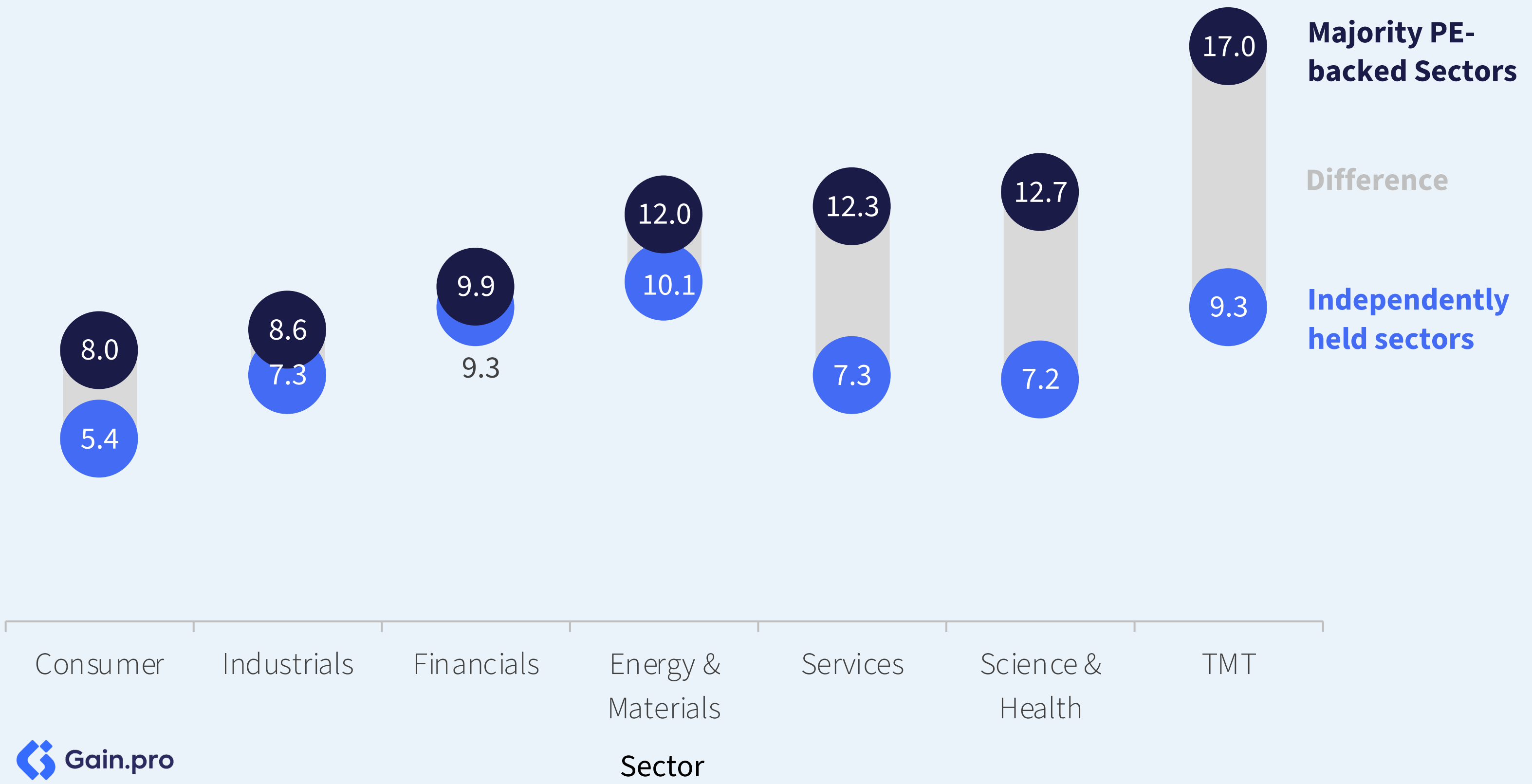
Growth delta is highest in TMT, Science & Health and Services

By sector, PE-backed assets in TMT, Science & Health and Services have the highest growth delta vs. independently held.

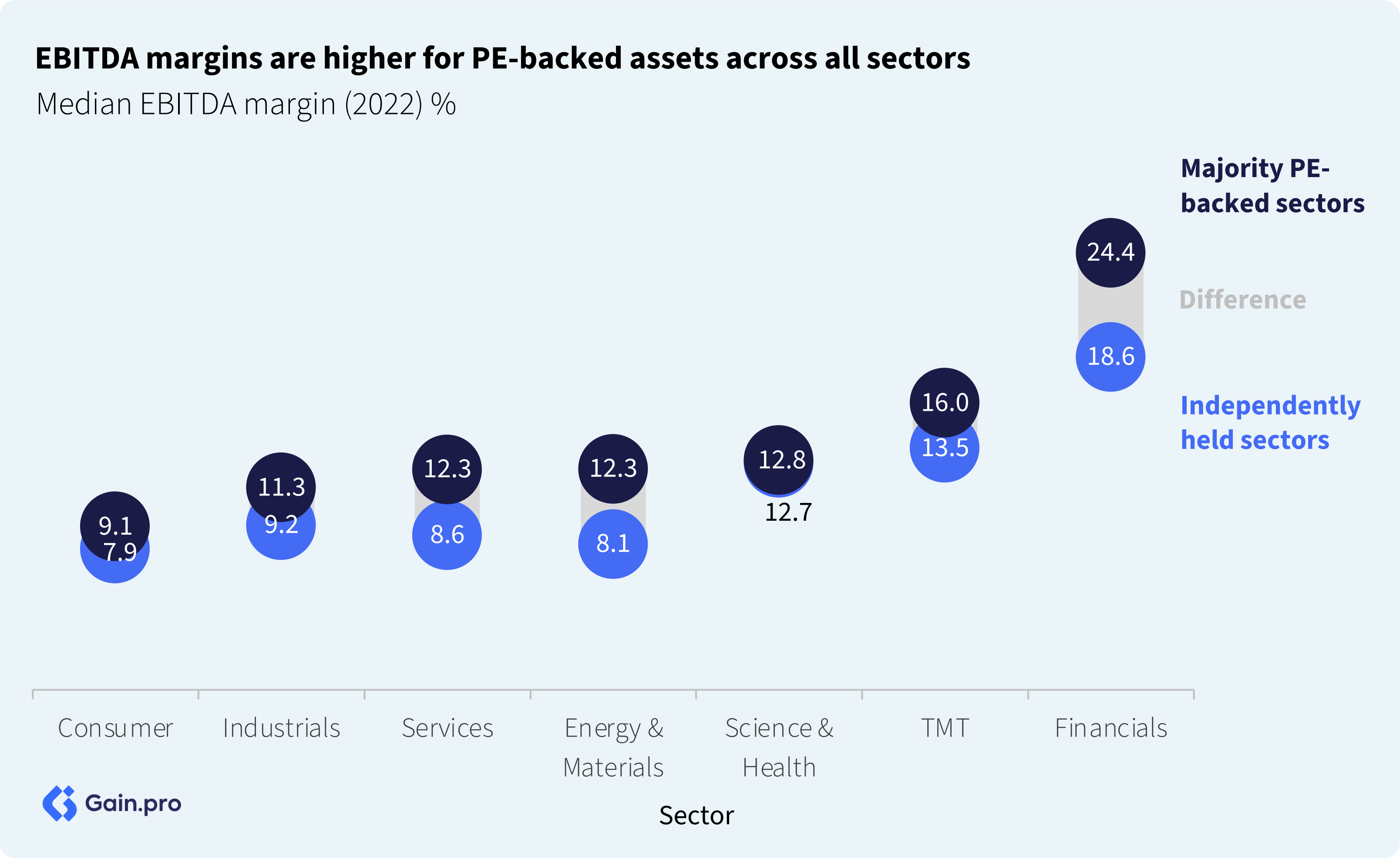
PE firms generally invest in businesses with a higher growth rate and they then further accelerate growth using M&A and cross-border sales.

TMT, Science & Health and Services have the highest growth delta vs. independently held

Median revenue growth rate (5 years CAGR 2017-22) %



Margins are higher for PE-backed assets across all the sectors



On average, majority PE-backed assets have higher margins across all sectors.

The delta in margins is highest for Financials (580 bps), followed by Energy & Materials (420 bps) and Services (370 bps).

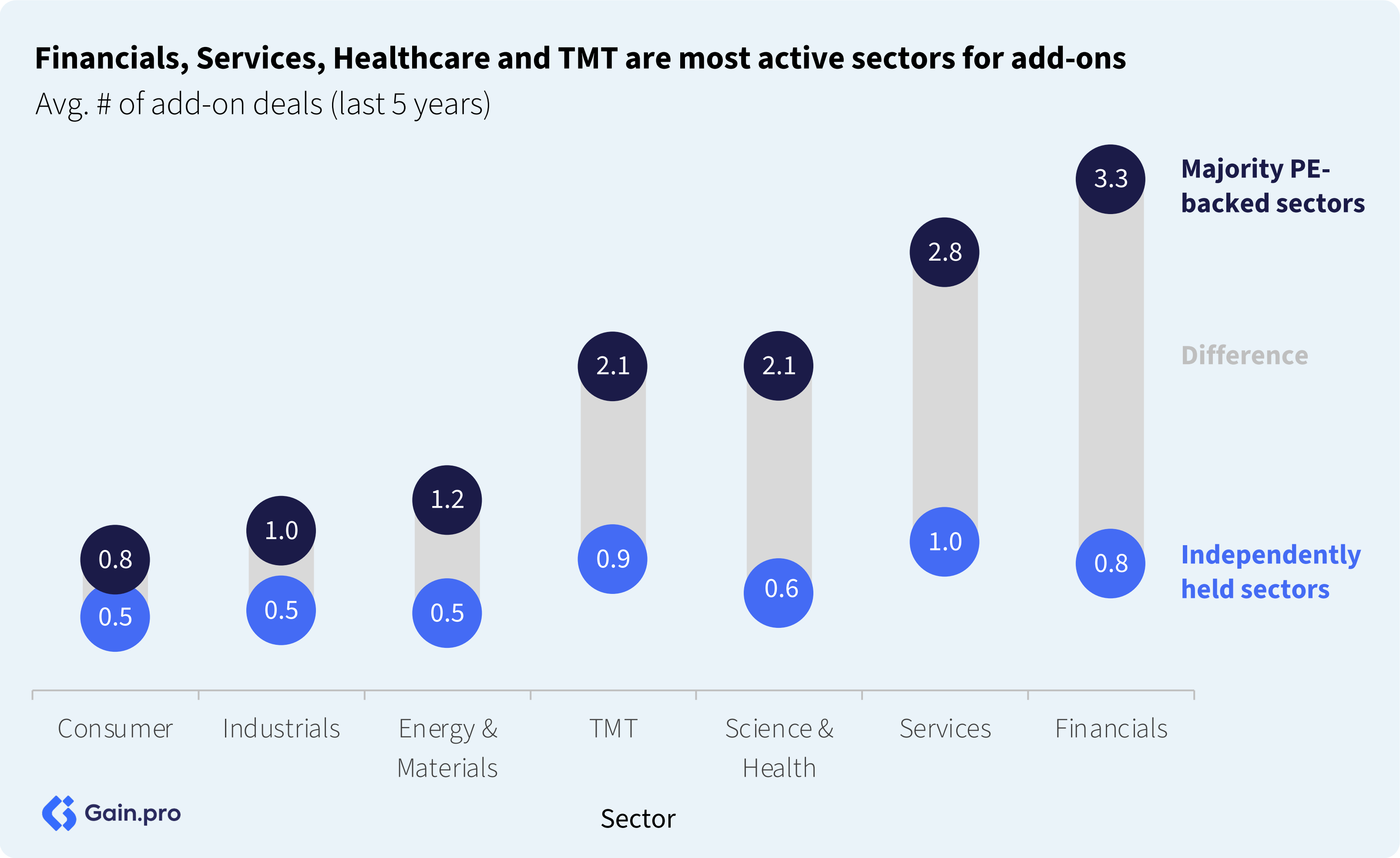
Also note how, TMT and Science & Health feature among the top 3 sectors for both EBITDA margin and growth.

PE-backed businesses do more M&A across the board

PE-backed businesses do more add-on deals.

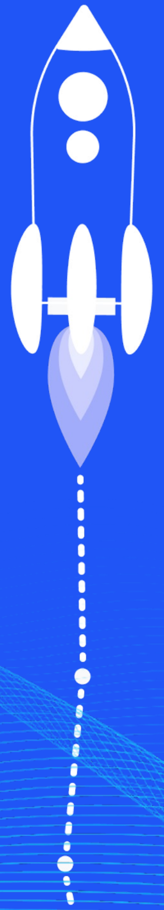
Financials, Services, Healthcare and TMT are the most active sectors for PE-backed add-ons.

Also note the stark difference in average number of deals across all the sectors.



03

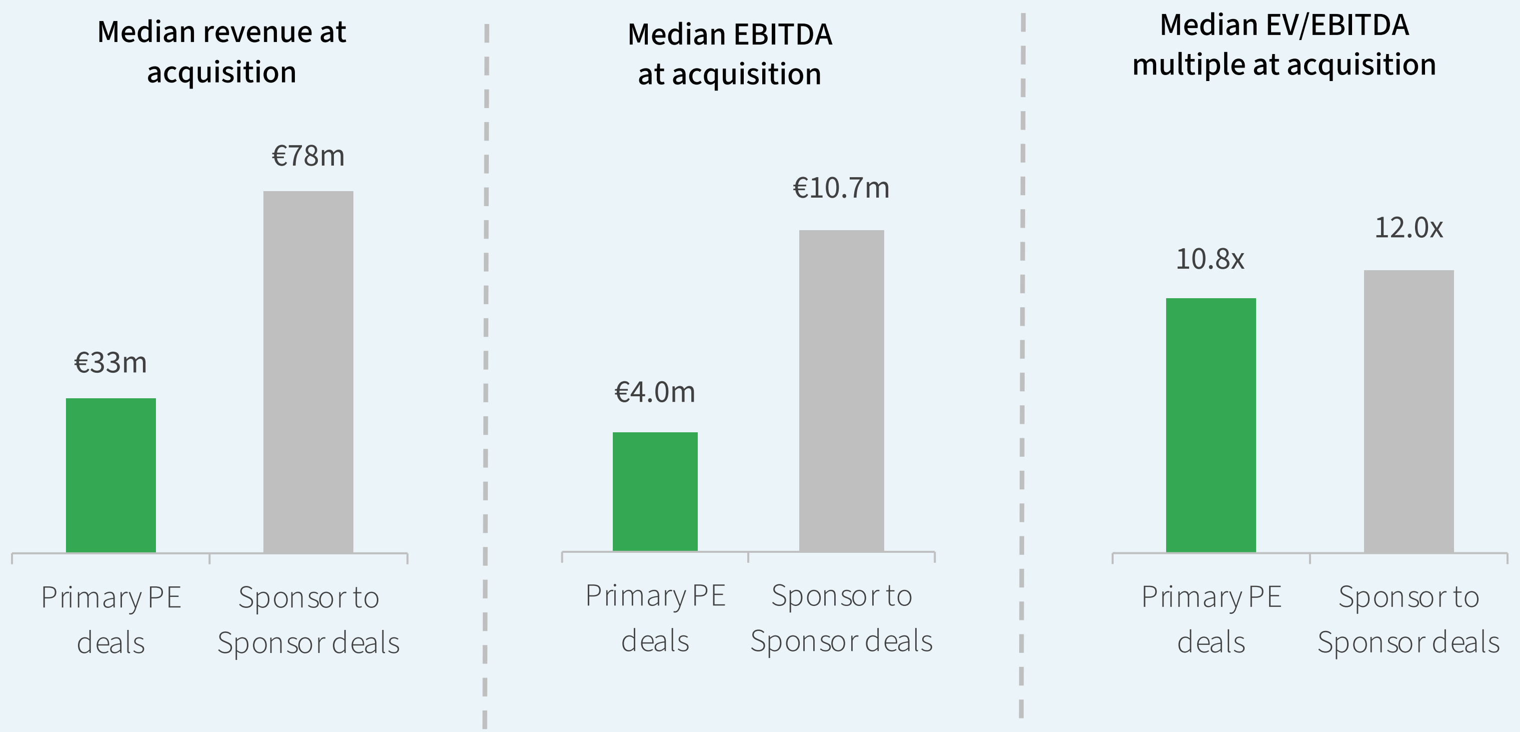
Acquiring an Independently Held Business



Primary deals are smaller in size and happen at lower valuations

Primary deals are roughly half the size of sponsor to sponsor and happen at lower valuations

Median values at acqusition (last 6 years)



Gain.pro

Deals where a PE buys an independently held business (primary deals) are roughly half the size of deals where a PE buys an asset from another investor (sponsor to sponsor deals).

The median EBITDA at acquisition for primary deals is roughly 60% lower. Primary deals also happen at lower valuations (10% cheaper).

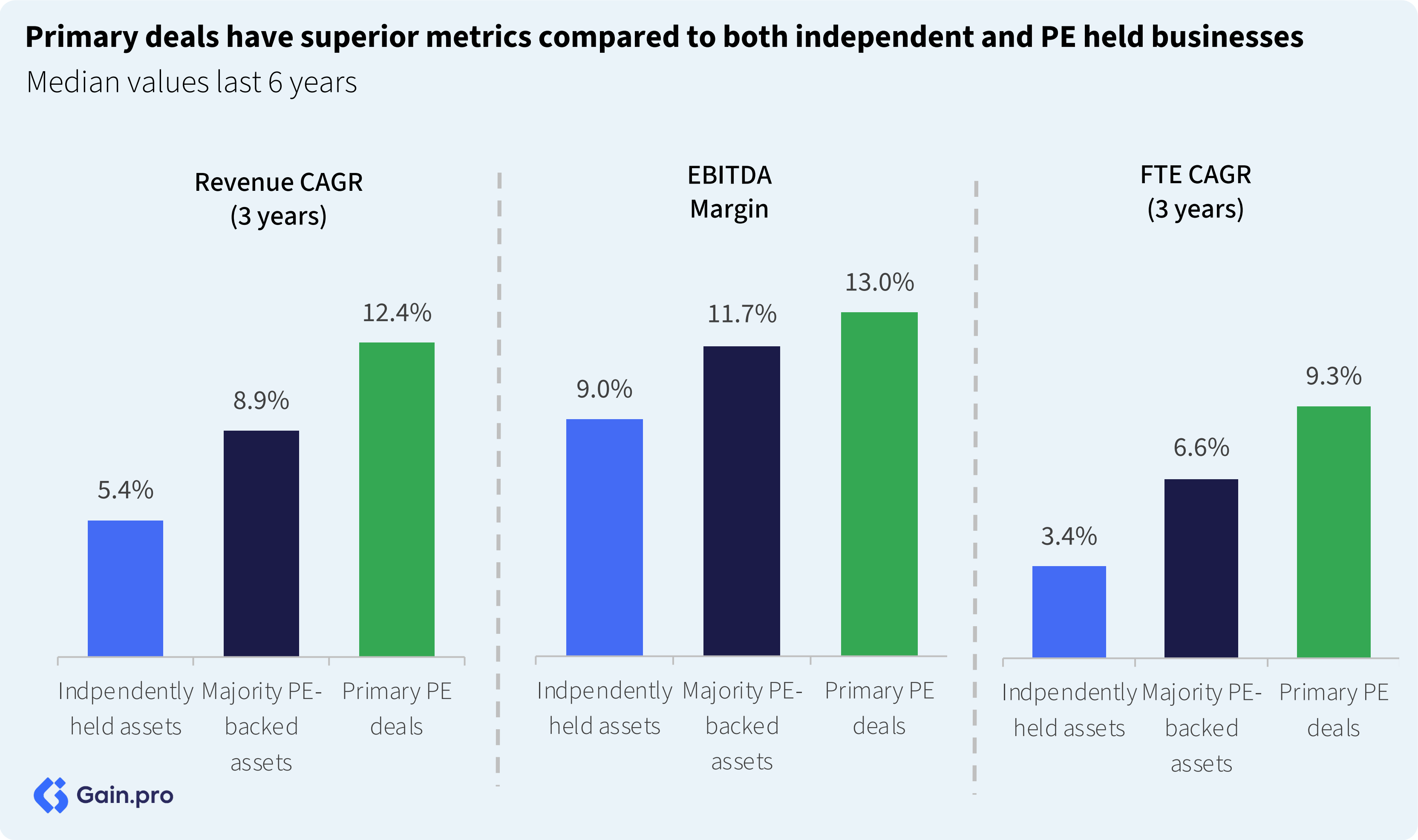
Note: We define primary deal as a deal where a PE firm acquires a majority stake in an independently held business. Sponsor to sponsor deal is a deal where a PE firm acquires a majority stake in a firm owned by another investor.

Assets acquired have superior metrics

PE firms acquire best-in-class independently held businesses.

The businesses they acquire grow at least 2x faster than the wider independently held asset pool. They also have higher margins and growth profiles compared to their current portfolio holdings.

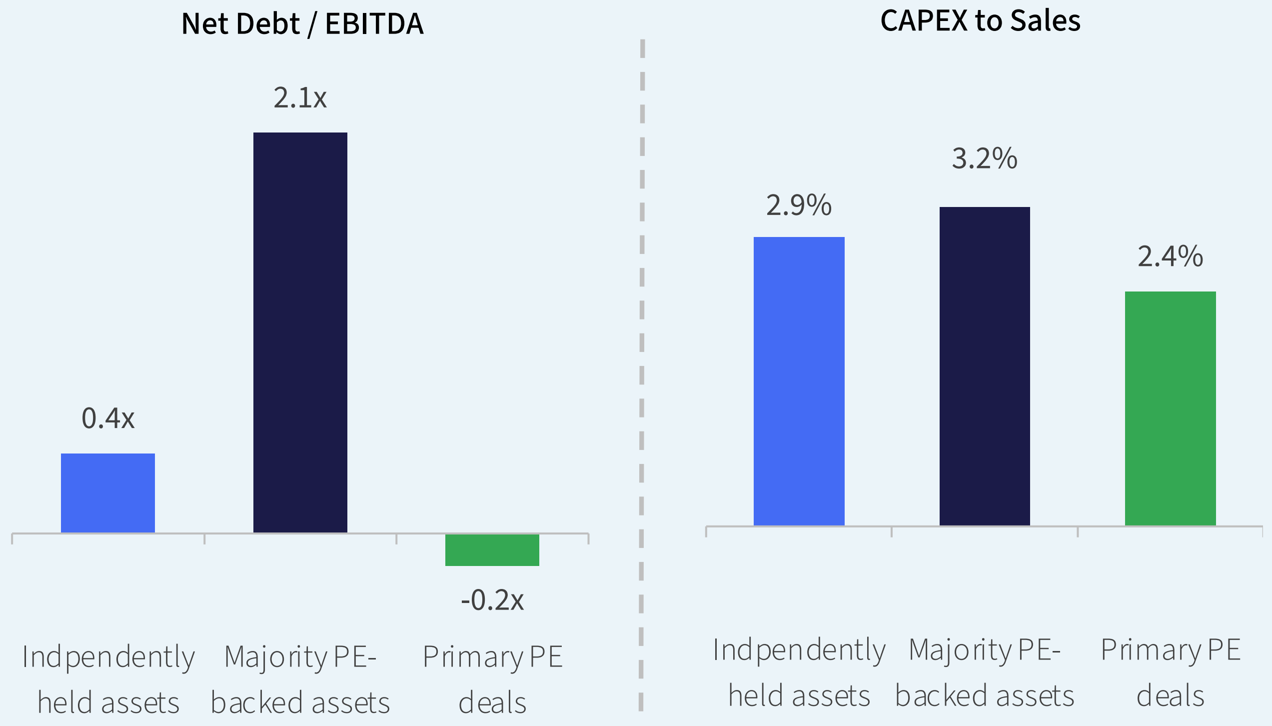
Take for example the 3-year revenue CAGR. The median value stands at 12.4% for all primary deals (vs. 5.4% for the independently held asset pool and 8.9% for PE-held assets).



Acquired assets also have lower debt and CAPEX levels

Assets bought in primary deals exhibit lower debt and CAPEX levels

Median values last 6 years



Gain.pro

“

In private equity, asset selection is more important than ever. What drives returns is buying high-quality assets at attractive valuations. It’s not easy to find these assets, let alone acquire them. Finding and acquiring these assets often requires deep sector expertise and a local network. That’s where many sponsors are able to differentiate themselves.

Frister Haveman,

Co-Founder & Co-CEO, Gain.pro

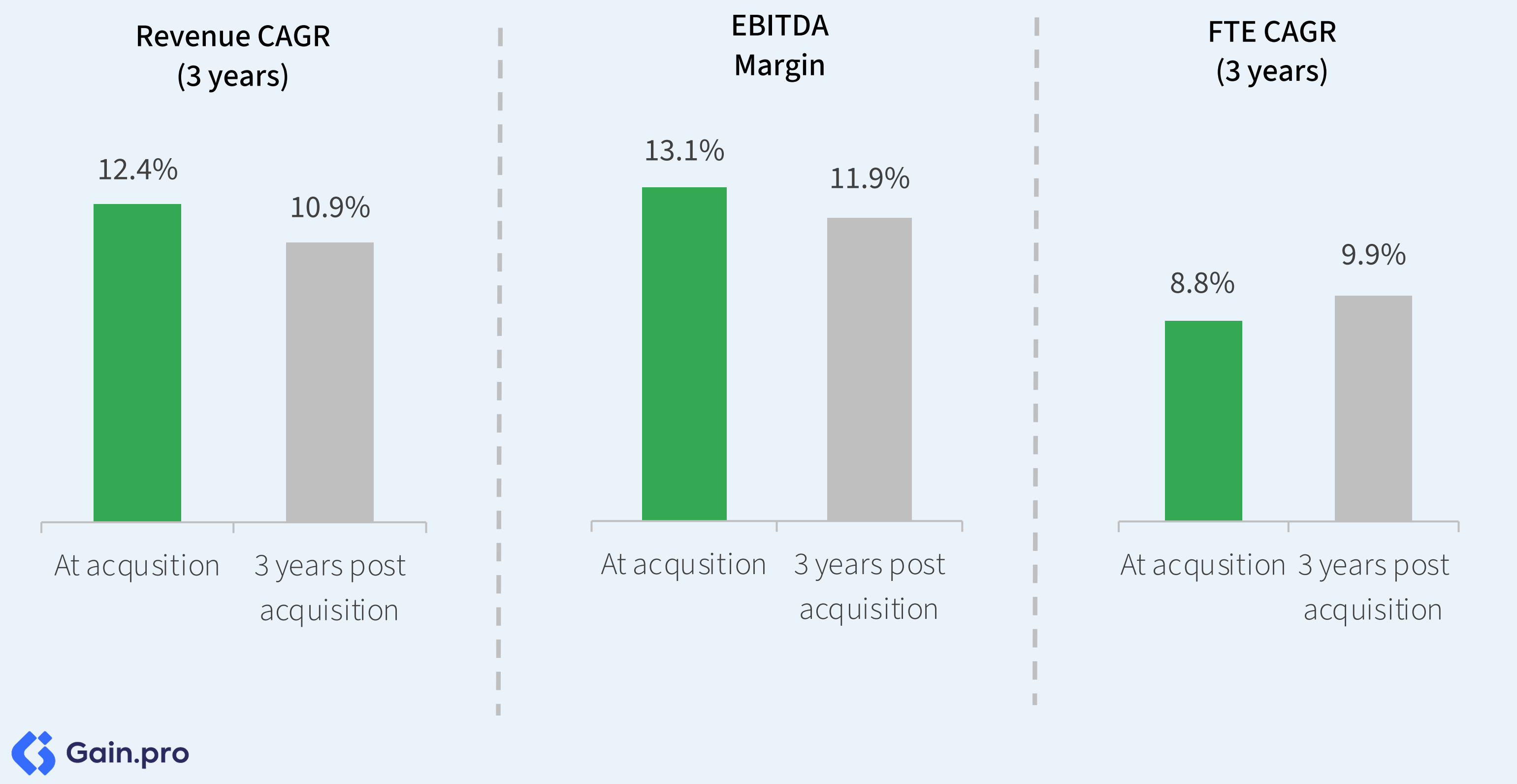
Post acquisition by PE, performance goes down marginally

Post acquisition by PE, growth and margin go down marginally but they stay well above wider industry averages.

We hypothesize that the slowdown in growth rates is because of companies becoming larger and distractions due to changes in management structure.

Post acquisition of the asset, performance goes down marginally

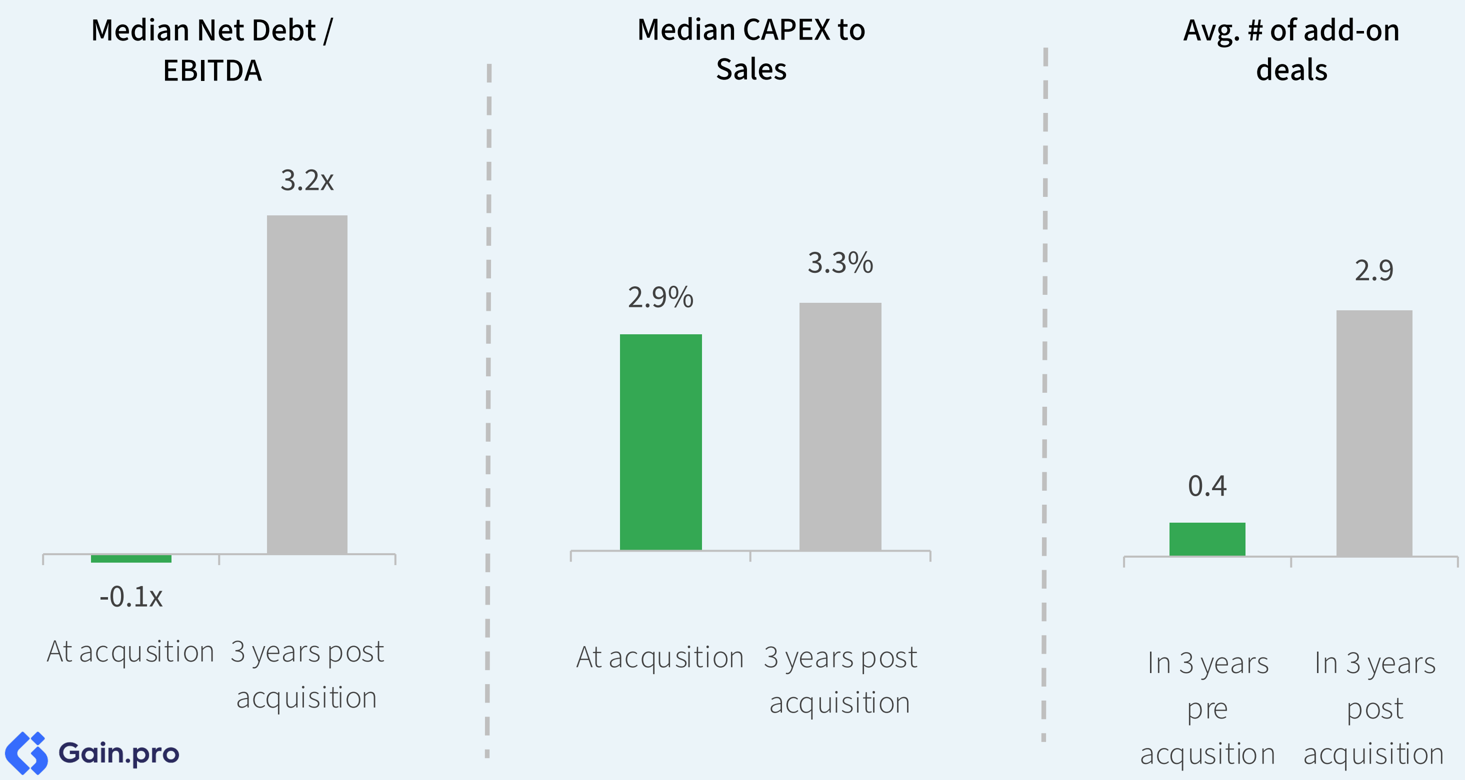
Median values at and 3 years post acquisition (last 6 years primary PE deals)



Post acquisition, debt and M&A helps unlock value

Post acqusition, debt levels, CAPEX and add-on activity rises

Values at and 3 years post acquisition (last 6 years primary PE deals)



“

The tightening monetary policy in recent years has had a significant impact on the value creation strategy of investors. With market multiple uplift being a thing from the past, operational levers like an active buy-and-build strategy have become even more important in unlocking value.

Nicola Ebmeyer,

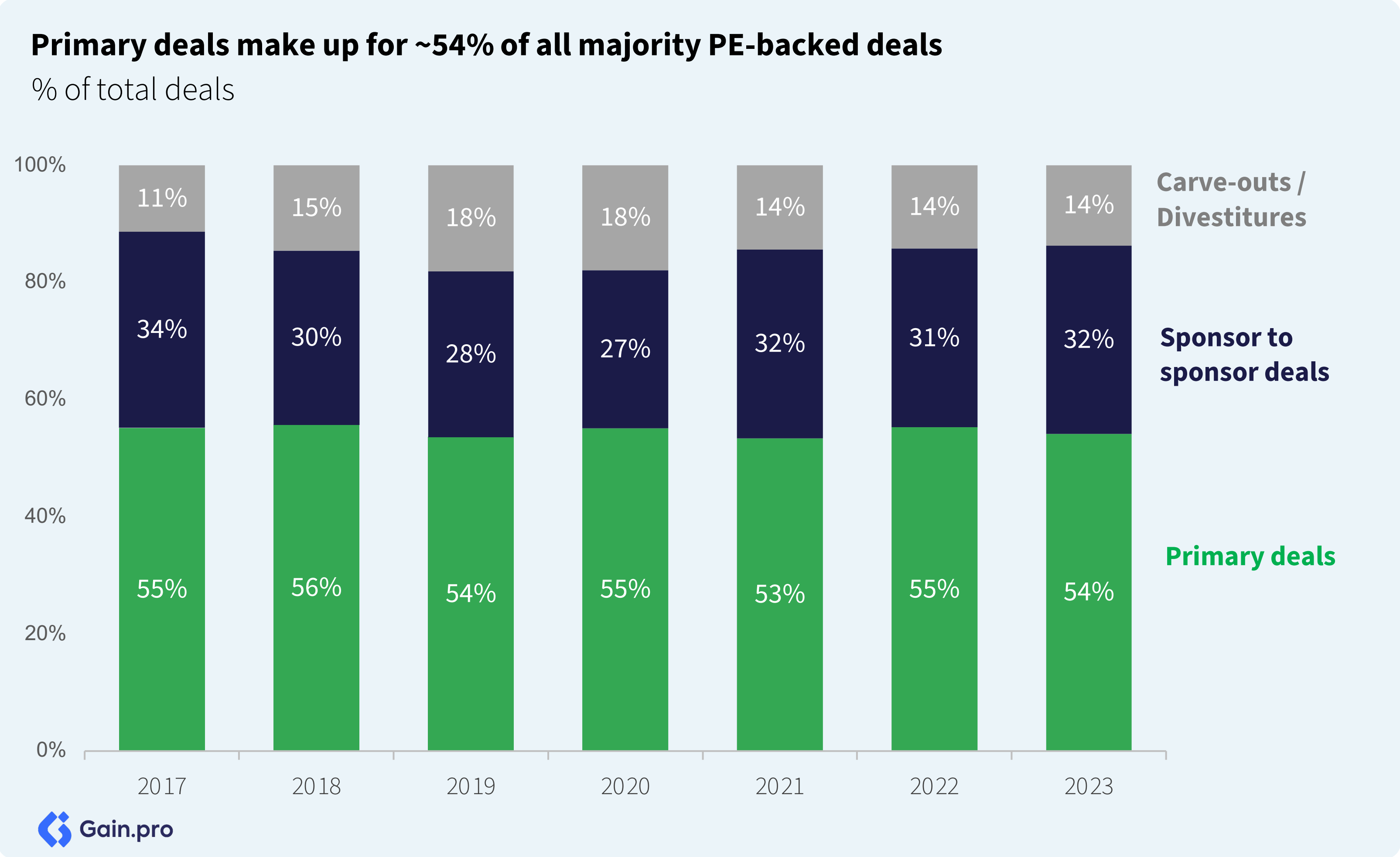
Co-Founder & Co-CEO, Gain.pro

04 |

Leading Primary Deal Investors

Gain.pro

Primary deals make up for more than half of all majority PE deals



"Investing in primary deals requires very specific skills – both technical and qualitative – as it is a fine balance between generating value and setting PE-like targets at the company while still maintaining the entrepreneurial spirit. We are proud to have done this successfully over the 18 years of our history.

Bas Kea, *Director, Apheon*

Top 30 primary deal investors in Europe by EV acquired (1/2)

Waterland, Carlyle, H.I.G. Capital and Oaktree Capital are the leading buyers of independently held businesses (primary deals).

We rank investors by EV acquired in the last 5 years, only including investors with at least 3 primary deals and at least 50% of their deals being primary.

Rank	Name	HQ	Primary EV acquired 5 years (€bn)	# of majority primary deals	Median EBITDA at acquisition (€m)	Primary deals as % of total
1	Waterland	NL	3.7	46	7.4	79%
2	Carlyle	US	3.4	20	15.7	57%
3	H.I.G. Capital	US	2.0	14	13.3	54%
4	Oaktree Capital Management	US	1.7	7	22.8	64%
5	Deutsche Beteiligungs	DE	1.6	13	11.4	65%
6	Armira	DE	1.5	11	12.7	100%
7	KPS Capital Partners	US	1.5	3	45.0	50%
8	HAL Investments	NL	1.3	4	31.0	57%
9	Inflexion	GB	1.2	13	8.3	50%
10	Apheon	BE	1.2	8	13.4	53%
11	Investindustrial	GB	1.1	9	11.8	69%
12	Röko	SE	1.1	22	4.6	100%
13	AUCTUS Capital Partners	DE	1.0	25	3.9	81%
14	BlackFin Capital Partners	FR	1.0	5	17.8	63%
15	Freshstream	GB	0.9	3	27.5	75%

Top 30 primary deal investors in Europe by EV acquired (2/2)

Rank	Name	HQ	Primary EV acquired 5 years (€bn)	# of majority primary deals	Median EBITDA at acquisition (€m)	Primary deals as % of total
16	Egeria	NL	0.8	11	7.1	85%
17	Argos Wityu	FR	0.8	6	13.0	67%
18	ProA Capital	ES	0.8	7	10.3	78%
19	Main Capital	PL	0.8	33	2.1	80%
20	The Riverside Company	US	0.8	9	7.7	82%
21	Gimv	BE	0.8	13	5.4	72%
22	Bregal Unternehmerkapital	DE	0.7	12	5.7	60%
23	21 Invest	IT	0.7	8	8.1	57%
24	FSN Capital	NO	0.7	8	7.9	50%
25	Nordian Capital	NL	0.7	9	6.7	90%
26	Metrika	IT	0.6	8	7.2	89%
27	Maxburg Capital Partners	DE	0.6	8	7.0	73%
28	L Catterton	US	0.6	5	11.1	100%
29	Bencis	NL	0.6	10	5.4	56%
30	NewPort Capital	NL	0.6	16	3.3	94%

US and German investors make up for the largest share of primary deal investors in our top 30 ranking.

They bag 6 of the top 30 spots each. Investors based in Netherlands and UK follow suit with each of them bagging 3 spots in our top 30 ranking.

Primary deals make up for a significant portion of deal flow for many large investors

Triton, IK Partners, CVC and KKR are among large investors who frequently buy independently held businesses.

We list below a subset of large investors (top 50 from our Europe 250 ranking), who have executed at least 3 primary majority deals in the last 5 years.

15-30% of all their majority deals in Europe are primary

Advent International GLOBAL PRIVATE EQUITY
Bridgepoint
Cinven
KKR
ARDIAN
APOLLO
PAI PARTNERS
Blackstone
EQT

30-50% of all their majority deals in Europe are primary

Triton
bpifrance
MACQUARIE
TA ASSOCIATES
3i
IK Partners
EURAZEO
Hg
NORDIC CAPITAL
ANTIN INFRASTRUCTURE PARTNERS
CVC

05 |

Methodology

METHODOLOGY

- **Data:** The data for the analysis comes from Gain.pro. Unless stated otherwise, we used data over the last 6 years from 2017-2022. For the calculations, we only included assets that had a hand-curated profile on Gain.pro (10+ hours primary research). Our focus for this analysis were assets HQ'd in Europe only.

- **Definitions:** Independently held businesses, also otherwise known as "privately owned" or "family owned" are businesses that haven't received any outside equity funding. Majority PE-backed businesses are businesses where a single or multiple PE firms own a majority stake. Primary PE deals are deals where a PE firm acquires a majority stake in an independently held business.

- **Post Acquisition Metrics:** To remove any sample bias, we only included companies that had financial metrics present both at and post-acquisition.

- **Investor Ranking:** We take the last 5 years of deal data, including only those investors who have executed at least 3 primary deal transactions, with primary deals constituting at least 50% of their overall transactions. We then rank investors based on the total enterprise value (EV) acquired. We get the EV acquired by multiplying the number of deals by median EBITDA at acquisition and a market multiple. The median portfolio EBITDA calculation only includes companies with at least 2 positive EBITDA values.

Gain.pro

About Gain.pro

Gain.pro is on a mission to provide global private market visibility. Our industry-leading platform combines advanced AI tech with local-for-local research. It delivers the highest quality information on the companies that matter to you most.

We serve 100% of MBB/Big-4 advisories, clients representing >$500bn of private equity capital and more than 70% of the top-20 global M&A houses. Examples include Blackstone, Goldman Sachs and McKinsey. We lead the market on customer satisfaction, as validated by external research (User Evidence survey 2023).

Gain.pro has been named as one of Europe's top 50 fastest growing businesses, operating globally with offices in Amsterdam, London, Frankfurt, Warsaw and Bangalore.

Gain.pro