

Leisure Travel Sector M&A Update

Resilient sector sees M&A levels recover to €3,2 billion

Consumers have prioritised spending on travel and holidays throughout the financial downturn. The US\$2 trillion leisure travel market is one of the largest sectors worldwide and is outperforming the broader global economy. Increasing consumer demand for differentiated holidays and the importance of the internet for research and online booking are supporting a recovery in M&A.

The key observations from our research:

❖ **Deal volumes are recovering**

M&A volumes in the leisure travel market are recovering from the lows of 2009 with 56 deals in 2012 worth over €3,2 billion.

❖ **Demand for specialist travel supporting mid-market M&A**

Consumer demand for holidays which can deliver an 'experience' or which are activity-based is increasing, supported by high disposable incomes and a prevalence for travel among the over 55s. Strategic and financial investors are attracted to the niche higher margin, higher growth operators which specialise in this area.

❖ **Operators targeting growth of online travel market**

The internet is now a key channel for the sector and is being used by consumers for research and booking. The potential growth in the online travel market is driving M&A, especially by online travel agents (OTAs) which are looking to gain scale, increase their geographic reach and own more of the customer journey.

❖ **Mid-market private equity has established a successful record**

Private equity (PE) has a high level of interest in the sector. Firms are attracted to both on and offline operators exposed to favourable demographic trends, offering a product which is difficult to replicate and are asset-light or have low fixed costs. PE has a successful record of developing these businesses and exiting to often larger PE to support further growth.



Jan Willem Jonkman,
Partner Capitalmind

"The strong performance by high quality, specialist online and offline operators means the sector is continuing to attract interest from trade buyers and financial investors."

Consumer demand for specialist types of travel makes sector appealing to acquirers

A resilient travel market is outperforming the global economy

The travel sector has changed significantly over the last decade as new suppliers and changes in end consumer demand have led to the emergence of new business models and distribution channels.

The US\$2 trillion leisure travel market is one of the largest sectors in the global economy. Despite a weak economic environment, consumer spending on travel has remained

a priority and the sector is outperforming the broader global economy with growth of 4.4%pa forecast over the next ten years, see Figure 1.

Rising demand for differentiated holidays, the popularity of purchasing travel online, and increasing consumer spend on travel in Asia and other emerging markets are supporting M&A.

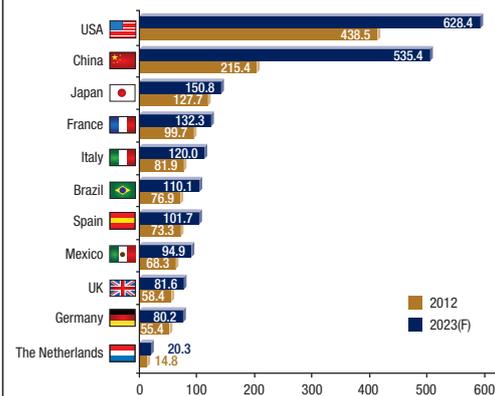
Demand for specialist travel leading to acquisitions

As global travel has become more common, consumers are increasingly focusing on authentic holiday destinations and experiences.

Companies like International Travel Group (ITG) are benefiting from higher demand for personalised and multiple destination travel. Mainstream tour operators such as De Jong Intra Vakanties are also delivering a wide range of locations in their inventory, see Figure 2. More operators, including luxury specialists, are responding to this broader demand by introducing affordable offerings so that they are able to appeal to a broader range of customers.

Demand from mainstream consumers for activity and specialist holidays such as walking, train journeys, cruises and escorted holidays is also increasing. In response, some destinations associated with beach style holidays like Spain and Mexico have been shifting their strategy to include adventure tourism destinations, mainstream operators are growing their 'differentiated' product offering, and cruise lines are including adventure activities into their on-shore excursion itineraries.

Figure 1: Travel & Tourism contribution to global GDP (US\$bn)



Source: World Travel & Tourism Council

Figure 2: De Jong Intra's top five long-haul holidays



Source: De Jong Intra Vakanties

Private equity is a key buyer for specialist operators

PE is a key potential acquirer for sellers, as they are taking advantage of less competition from trade buyers.

PE is attracted to the premium which consumers are prepared to pay for the expert advice they typically seek when booking specialist holidays. It is attracted to those operators which are leaders in their niche using a direct-to-customer model, and an exclusive or distinctive product which is difficult to replicate.

Recently, Capvis Equity acquired Nicko Tours Group in Switzerland. Nicko provides for more than 20 years high standards and excellent service on its river cruises. In 2012

they had a total of 30 cruise ships operating on the world's most beautiful rivers.

- In 2011 Duke Street Capital and Kings Park Capital acquired QCNS Cruise SAM, the European Cruise & Train Tour Operator based in Monaco, France.
- Axivate Capital invested in 2012 in Corendon. Corendon can be seen as the Turkey specialist. However, Corendon not only offers vacations in Turkey, but they also offer vacations in 12 other countries and they have two own airlines; Corendon airlines and Corendon Dutch Airlines, with 10 aircrafts in total. *(Benelux example)*

PE is attracted to strong brands with loyal customers and a distinctive product

Traditional operators focusing on strategic deals

A number of deals by trade buyers have been driven by the strategic need to ensure product ranges are relevant by increasing or gaining access to growing, high margin consumer groups, and divesting non-core assets.

TUI Travel's 'differentiated product' now accounts for 47% of product sales (30% in 2008). In 2011, TUI Travel combined its various adventure brands into Peak Adventure when it formed a joint venture with adventure tour operators Intrepid Travel. This was followed by the acquisition of UK-based Isango, the online travel agent which specialises in selling tours and activities.

As part of its growth strategy, Thomas Cook is divesting non-core businesses. For example, it has recently sold its North

American businesses to Canada-based Red Label Vacations.

- In 2013 De Jong Intra Vakanties acquired Cycle Tour Plus. Cycletours offers cycling vacations for individuals, but also in groups with hotel as well as camping packages. Group vary from parents with children, youth, 55+ (highest level of disposal income, see Spotlight below) etc. With the acquisition of Cycletours, De Jong Intra further enlarged their product scope. *(Benelux example)*
- In 2009 Sundio Group acquired the French Gototravel, the specialist in winter(sports) vacations for students, to enlarge their product portfolio in France as part of their strategy. *(Benelux example)*

Source: Continue Vakantie Onderzoek, NBRC-NIPO and CBS

Spotlight: the 'grey market' is a strategically important consumer base

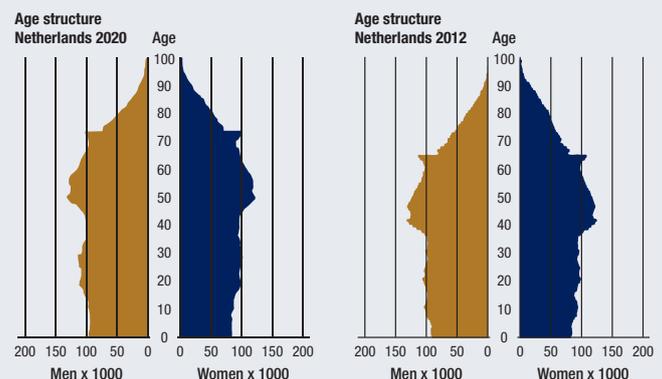
An ageing population and later retirement is leading to a larger pre and post-retirement customer base.

Increasing demographic: The number of over 55s in the Netherlands is forecast to reach almost 6 million by 2020.

Biggest spenders: Pre-retired travellers take multiple annual holidays and will account for over 40% of all expenditure on holidays abroad in 2020. That's because the total number of vacations of the over 55s

increases (30 percent in 2012 to 34 percent in 2020) and the amount spend on those vacations by seniors will also increase, from 32 percent in 2012 to 37 percent in 2020.

M&A targets: There are more and more providers which have a focus on this customer base that are attracting the attention of buyers. There will be more acquisitions of independent and PE-backed specialist operators by strategic trade buyers and financial investors.



The potential growth in underpenetrated online travel markets is driving M&A

OTAs targeting online potential outside the US

The online travel sector has grown dramatically over the last ten years as the internet and discount air carriers have disrupted the traditional travel tour operator model. Consumers have been migrating from traditional travel agents to buying travel products online, especially simple holidays. In the US, over 50% of all travel is purchased

online and OTAs including Expedia, Priceline (including the Dutch based Booking.com), Travelocity and Hotels.com are now household names. However, the rate is much lower in Asia in particular (24%) despite the size of the travel market in this region being similar to the US, see Figure 3.

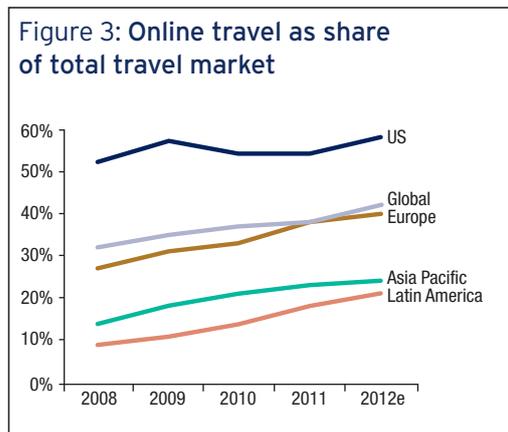
Increasing exposure to fast-growing but underpenetrated online markets

Transactions involving online providers have been increasing and accounted for 30% of deals in 2012, see Figure 4. The European online travel market generated US\$140 billion in bookings during 2012 with low single digit growth while Asia Pacific generated US\$65 billion in bookings and grew at 20% year-on-year. PE has been a key acquirer of OTAs, attracted to the established technology and asset-light, strong cash generative business models.

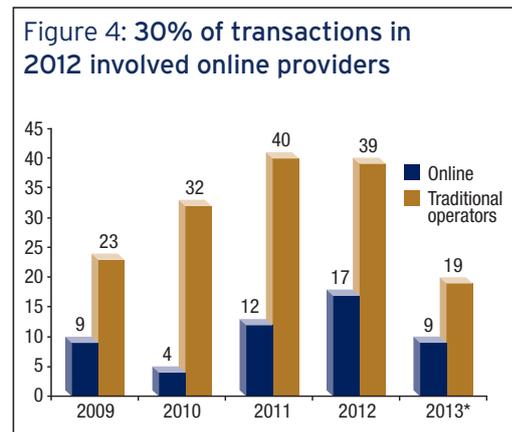
- ◆ Growth Capital Partners acquired the UK's leading online ski and cruise agent, Iglu.com, in 2011 for €23,8 million. The investment will help the business expand into Europe. Iglu.com recently acquired online and TV cruise retailer Planet Cruise, making it the UK's largest independent cruise agent.
- ◆ Axa Private Equity and Permira acquired online travel service Opodo from global distribution system supplier Amadeus in

2011 for €450 million (15.7x EBITDA). Opodo was subsequently merged with, eDreams, acquired in 2010 by Permira, and Go Voyages bought by AXA to form the OdiGeo Group. This is now Europe's largest online agency with growth expected to come from expanding travel services and increasing online penetration in European travel markets.

- ◆ GIMV, a Belgian private equity fund and UFG Private Equity, acquired comparison engine Easyvoyage in 2009. Customers can compare (flights, all-ins, hotels etc.) at Easyvoyage. The content is extensive and mostly private, provided by 20 in house journalists. Easyvoyage is the leading information broker for travel in France and continues to grow in Spain and Italy. *(Benelux example)*



Source: Expedia, PhoCusWright, ETTSA, Ascendant Capital Markets



Source: Capital IQ *June 2013

Traditional operators developing a multi-channel capability

Traditional operators have been slower to capitalise on the channel shift from offline to online, but are now developing multichannel (online and retail) platforms which incorporate online purchasing capabilities.

- ❖ Both Thomas Cook and TUI Travel are leveraging the trust associated with their brands to grow their online sales whilst maintaining a cost-effective offline presence. This includes developing a comprehensive digital customer journey which increases their customer insight by integrating recommendations and social media, as well as online booking.
- ❖ Acquiring established online platforms with a credible brand and loyal customer base is the fastest way to achieve ecommerce capabilities. For example, Dubai-based air services provider Dnata, which acquired Travel Republic in 2011, was attracted to the

OTA's proven technology. The acquisition gave Dnata an online presence and exposure to the UK consumer travel sector. Travel Republic will be able to leverage Dnata's scale to target larger acquisition opportunities and expand internationally.



Traditional operators are leveraging their brand to grow online sales

Integrate travel search and travel content with distribution

The global OTAs are keen to ensure they are benefiting from the fast growth in metasearch (aggregated comparisons of travel services including air fares) and to combine this with distribution. Recent transactions have given acquirers access to earlier stages of the booking path and, with some aggregators developing booking capabilities, removed potential competitors. These mega deals have typically been made by the major US OTAs.

- ❖ Travel aggregator sites are responsible for driving significant levels of traffic to OTAs via advertising. US-based Priceline will use its €1279,4 million 2012 acquisition of US-based travel search engine Kayak to gain market share in the US and benefit from the increasing volume of search queries made on mobile devices. Kayak will be able to leverage Priceline's online booking brands Booking.com and agoda, and expand outside the US.

- ❖ US-based Expedia, which sold travel review site TripAdvisor in 2011, acquired a majority stake in German hotel metasearch site Trivago for €477 million in 2012. Trivago's strong brand and expertise in search engine marketing optimisation will reduce Expedia's dependency on Google and improve customer acquisition in Europe, where it lags Booking.com.

Valuation gap between OTAs and traditional operators

There is a significant gap in valuation between traditional offline operators and OTAs. Figure 5 illustrates that greater value is being attributed to the online travel sector. This can be primarily attributed to faster growth rates currently being experienced by purely online providers.

Leading US-based OTAs using M&A to grow international market share

PE has a successful secondary buy-out record

M&A levels recovering

- Deal volumes have been recovering from the lows of 2009 with 56 deals in 2012 worth over €3.2 billion, see Figure 6.
- Trade acquirers have maintained their level of activity over the last two years and account for over 70% of global deals. The majority of transactions are domestic, reflecting the opportunities to consolidate fragmented home markets.

Private equity has a successful exit record

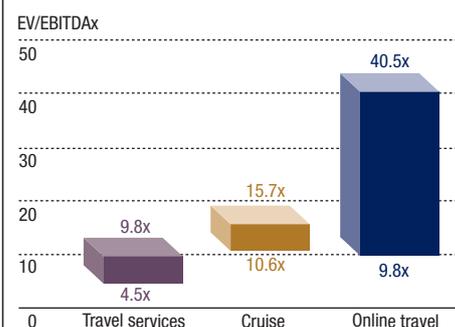
- As discussed earlier in the report, there is a high level of PE interest in the sector, see Figure 6. PE is attracted to those off and online operators which are exposed to favourable demographic trends, offer tailored content within their inventory and have low capital expenditure business models.
- PE has a successful secondary buy-out record selling travel companies to PE to support further growth. Iglu, acquired by Mobeus Equity Partners for €4,8 million in 2009, was sold to Growth Capital Partners for €23,8 million in 2012 and French OTA Karava, bought by Equistone for €83 million in 2007, was subsequently acquired by LBO France in 2011 for €211 million. Oakley Capital acquired a majority of the shares of the Dutch Emesa for €27 million, known from online auction stores as Vakantieveilingen.nl, in 2011. All shares were sold in 2012 to Cyrte investments for €95 million.



Ron Belt,
Partner Capitalmind

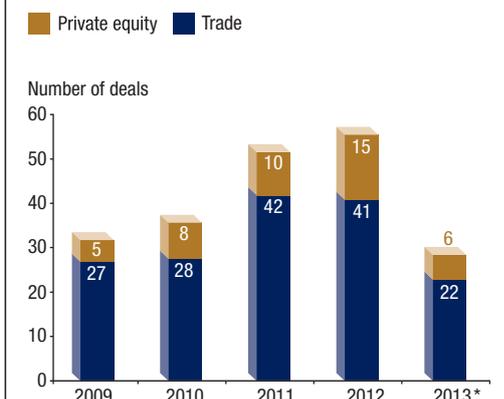
“The rapid evolution of the travel sector in recent years and its successful adaptation to the online world has ensured continued strong interest from PE investors. We expect this to continue for the foreseeable future.”

Figure 5: EV/EBITDA range for selected travel services, cruise lines and online travel agents



Source: Capital IQ, May 2013.
EBITDA latest 12 months

Figure 6: M&A activity since 2009



Source: Capital IQ *June 2013

Figure 7: Selected Deals

Date	Bidder	Country	Target	Country	Deal value (€)
Feb- 14	Balmer Lawrie & Co. Ltd	India	(Tours business unit of) Vacations Exotica Destinations pvt Ltd	India	n/d
Dec- 13	Vliegtickets.nl BV merged with	NL	World Ticket Center BV	NL	n/d
Jun- 13	Iglu.com Ltd	UK	Planet Cruise Ltd	UK	n/d
May- 13	MBO team	NL	Djoser BV	NL	n/d
Feb- 13	Univairmer	France	(7 travel agencies of) Kuoni Travel Holding Ltd	France	n/d
Feb- 13	Cyrte Investments	NL	Emesa Group Holding BV	NL	95
Jan- 13	De Jong Intra Vakanties BV	NL	Cycle Tours BV	NL	n/d
Jan- 13	Capvis Equity Funds III Fund	Switz.	Nicko Tours Group	Switz.	n/d
Dec- 12	Expedia, Inc.	USA	Trivago GmbH (61,6% stake)	Germany	477
Dec- 12	MBO team	NL	Kuoni Reisen Holding AG (Dutch Operations)	NL	n/d
Nov- 12	Priceline.com Inc.	USA	Kayak Software Corporation	USA	1279,4
Aug- 12	Capita Plc	UK	Expotel Group Ltd	UK	20,1
Aug- 12	Google Inc.	USA	John Wiley & Sons, Inc. (Travel assets)	USA	n/d
Aug- 12	Sundio Group BV	NL	Travelhorizon SA	France	n/d
Jul- 12	Tomorrow Focus AG	DE	Webassets BV (known from Zoover)(51% stake)	NL	20,8
May- 12	Growth Capital Partners	UK	Iglu.com Holidays Ltd	UK	23,8
Feb- 12	MBO team	NL	International Travel Group BV	NL	n/d
Jan- 12	@Leisure Holding BV	NL	Pureholidayhomes.com Ltd	UK	n/d
Dec- 11	Dnata	UAE	Travel Republic Ltd (75% stake)	UK	n/d
Jul- 11	Cox & Kings India Limited	India	Holidaybreak Plc	UK	358,9
Jul- 11	Expedia, Inc. (shareholders)	USA	Tripadvisor, Inc.	USA	n/d
Jul- 11	TUI Plc	UK	Magic Life GmbH	AT	16,5
May- 11	Duke Street Capital Fund VI; Kings Park Capital LLP	UK	QCNS Cruise SAM	France	n/d
Mar- 11	Oakley Capital Investments	Bermuda	Emesa BV (60% stake)	NL	27
Mar- 11	Kuoni Reisen Holding AG	Switz.	Lime Travel AB	Sweden	n/d
Feb- 11	Permira; AXA Private Equity	France;UK	Opodo Ltd	UK	450
Jan- 11	BCD Holdings NV	NL	Beins Travel Group BV (Cheaptickets.nl)	NL	n/d

Source: BlueMind Corporate Finance

n/d: non-disclosed

Leisure Deals Mergers Alliance - selection

<p>India - Singhi Advisors (2014)</p>  <p>Acquired the tours business unit of</p> 	<p>Germany - EquityGate Advisors (2013)</p> <p>Debt Restructuring of</p> 	<p>UK - Catalyst Corporate Finance (2012)</p>  <p>was sold to</p> 	<p>NL - BlueMind Corporate Finance Strategy (2012)</p> <p>Management Buy-out of</p> 	<p>South America - BroadSpan Capital (2012 & 2011)</p> <p>Debt Restructuring and the ultimate divestiture of the hotel portfolio of</p> 
<p>Spain - Norgestion (2011)</p> <p>Group Gestión de Hoteles Biohotel, S.L.</p> <p>acquired</p> <p>a five star hotel in Benalmadena-Malaga</p>	<p>Sweden - Sinergia Capital (2011)</p>  <p>was sold to</p> 	<p>India - Singhi Advisors (2010)</p>  <p>was sold to</p> 	<p>NL - BlueMind Corporate Finance Strategy (2009)</p>  <p>acquired</p> 	<p>South America - BroadSpan Capital (2009)</p> <p>Debt Restructuring of</p> 

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holding key positions in the Benelux and France.*

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