



ARGOS

INDEX

the mid market reference

December 2014

The Mid-Market euro zone index

Prepared by
Argos Soditic & Epsilon Research



Capital for your future ■■■

Table of contents

page 3

Methodology

page 4

Index trend

page 5

Buyout vs strategic

page 6

Euro zone M&A trends

page 7

Sample analysis

page 8

Argos Soditic & Epsilon Research

Methodology

The Argos Mid-Market Index measures the evolution of euro zone private Mid-Market company valuations. Carried out by Epsilon Research for Argos Soditic and published every three months, it reflects median EV/EBITDA multiples, on a six-month rolling basis, of Mid-Market M&A transactions in the euro zone.

The preparation of the Argos Mid-Market Index is based on a rigorous methodology and in-depth scrutiny of transactions making up the sample:

- Choice of the relevant multiple

The EV/EBITDA multiple is the most suitable for a European index as it is not impacted by the target's financial structure nor by its policies regarding depreciation and provisioning (which vary in time and between countries). It is also the closest readily available proxy for operating cash flow.

- Sample of transactions analysed

A sample of transactions studied since 2004, using the following criteria:

- acquisition of a majority stake,
- target based in a euro zone country,
- Mid-Market (equity value in the €15-500m range),
- certain activities excluded (financial services, real estate, high-tech),
- availability of relevant target financial data.

- Information sources are those used by Epsilon Research to prepare analysis reports on transactions available in its e-MAT database:

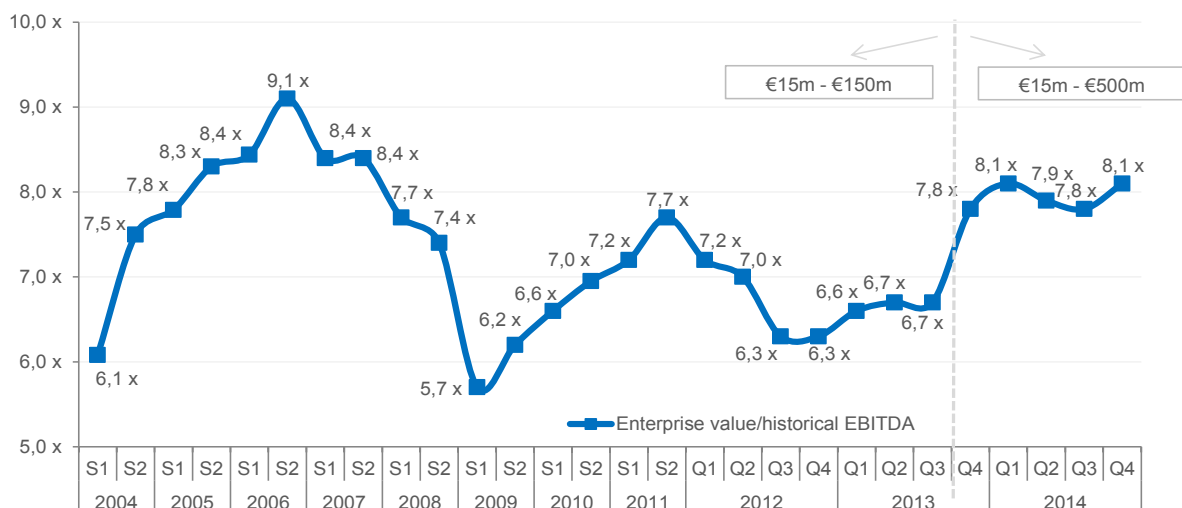
- professional partner databases: CorpfInDeals (transactions), CompanyQuery (company accounts),
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- Comprehensive analysis of each transaction identified: research covering all available information; verifying, cross-checking, restating financial data; analysis of target activity and of the context of the deal; calculating and analysing acquisition multiples; rating the reliability of multiples.

The index in perspective: The Argos Mid-Market Index is intended to reflect the evolution of valuations of private mid market companies. It is not designed as a business valuation tool.

Index trend

Renewed increase in Index



Argos Mid-Market Index - median multiple EV/EBITDA over last six months
Source: Argos Mid-Market Index / Epsilon Research

The Argos Mid-Market Index, which has been extended to include transactions of up to €500m (see method below), improved slightly in the fourth quarter of 2014 to 8.1x EBITDA, and remains at a high level at over 10% above the long term (10 year) average.

The increase in the Index is linked to the improvement in prices paid by industrial buyers to 8.0x EBITDA (+7% compared to the 3rd quarter), driven by the stock market recovery. Supported by a financial environment which remains favourable (financing, rates, dry powder) and by the fierce competition between funds, prices offered by financial investors remain at a high level at 8.4x EBITDA.

The increase in multiples has primarily been sustained by favourable market conditions, whereas the M&A activity is stagnant in the Mid-Market (in terms of volume of transactions). The lack of confidence of investors in the economic recovery in the Eurozone which, when added to geopolitical risks, continues to limit the recovery in M&A operations.

Enlargement of the Argos Index:

Since December 2013, the Argos Mid-Market Index includes transactions with an equity value between €150m and €500m.

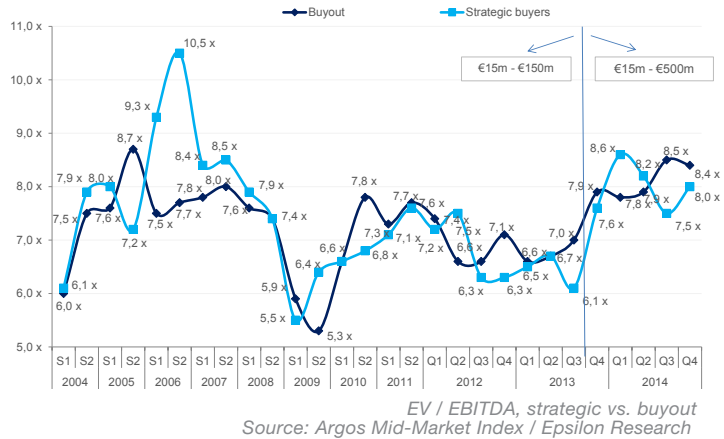
The Argos Mid-Market Index therefore covers transactions between €15m and €500m of equity value.

Buyout vs strategic

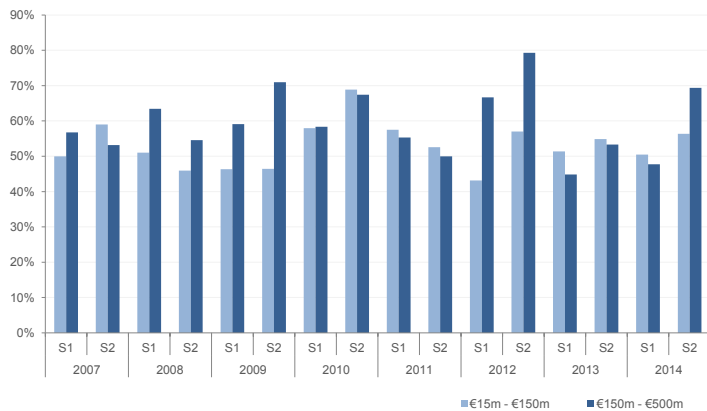
Prices offered by buyout funds remain at a high level (8.4x EBITDA).

These valuations are sustained by the competition which remains fierce between funds, which have a high level of capital to invest against a limited number of available assets to buy. They are also linked to particularly favourable financing conditions which are translating into increasingly leveraged buyouts⁽¹⁾.

Acquisition multiples paid by trade buyers increased in the 4th quarter to reach 8.0x EBITDA. This increase is mainly linked to the recovery in the stock market which started mid-October 2014. The proportion of listed buyers among the trade buyers (in volume terms) increased significantly in the second half of 2014, growing from 50% to 60% in the Mid-Market and even as high as 70% in transactions higher than €150m.



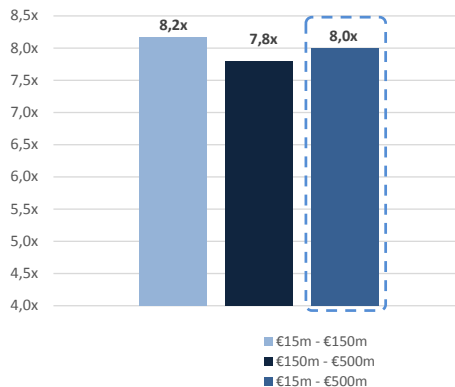
EV / EBITDA, strategic vs. buyout
Source: Argos Mid-Market Index / Epsilon Research



Proportion of listed buyers in strategic acquisitions
Euro zone, Mid-Market (volume)
Source: Epsilon Research / CorpinWorldwide

Comparison by transaction size

On the full year 2014⁽²⁾, the EBITDA multiple for transactions between €15m and €500m was lower than the multiple paid for transactions between €15m and €150m. One of the reasons is the difference in the weight of each sector. Manufacturing, construction and chemical sectors for which the EBITDA multiples are structurally weaker⁽³⁾ had a higher weighting (in transaction volume terms) for the transactions between €150m - €500m.



EV / EBITDA (transaction size)
Source: Argos Mid-Market Index / Epsilon Research

(1) The debt/EBITDA ratio in Europe is 5.42x in 2014 according to Thomson Reuters, an increase of 10% compared to 2013 (4.9x) and 34% compared to 2009 (4.04x). / (2) The above histogram presents the EBITDA multiples for the last twelve months as of Dec-14, as opposed to the chart in page 1 which presents multiples on a 6-months rolling period. / (3) In 2014, the median multiple for the sectors Construction/Manufacturing/Chemicals is 15% lower than the Argos Mid-Market Index, whereas the TMT/Services sector multiple is 37% higher than the Argos Mid-Market Index.

Euro zone M&A trends

Progression in value terms, but drop in volume of the Mid-Market M&A activity

M&A Mid-Market activity in the Euro zone increased in value terms over the second half and over the two segments: in the segment €15m - €150m an increase of +14% and in the segment €150m - €500m an increase of +12%. The overall increase for the entire Mid-Market for 2014 was +30%.

However, the number of transactions continues to stagnate. It even decreased by 9% in the 4th quarter, with an increase of 3% in 2014 compared to 2013 (with the same proportions in the two Mid-Market segments). The continuing economic difficulties in the Euro zone, with growth weaker

than forecast, have continued to limit the recovery in the M&A Mid-Market activity.

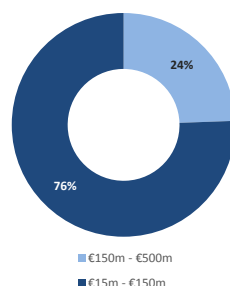
In each segment (€15m - €150m / €150m - €500m) activity is impacted by larger transactions, which demonstrates the 30% increase in the size of the average transaction in the Mid-Market since 2009: from €97m to €129m in 2014 for the entire market (and from €50m to €60m for the smaller segment), its highest level since 2002.

Euro zone M&A Mid-Market activity (€15m - €500m)*



(*) Volume (left hand axis) / Value (right hand axis)
Source: Epsilon Research / CorpfInWorldwide

Split by number of transaction by size (in 2014)



Source: Epsilon Research / CorpfInWorldwide

Sample analysis

Stability of the transaction sample used to compile the Index

Sample characteristics - size and type of deals, countries and sectors involved - are very stable from one Index to the next.

The following table shows the main characteristics of each index since 2011.

	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Samples size					
Deals retained for the index	114	108	107	111	108
Average Equity Value (€m)	105,0	105,2	101,6	114,7	108,7
Average N-1 sales (€m)	116,3	137,1	183,3	186,2	139,7
N-1 EBITDA margin	13,2%	13,9%	13,1%	13,1%	13,3%
N-1 EBIT margin	9,8%	9,8%	9,4%	9,6%	9,4%
Breakdown by size (Equity Value)					
[15-49] €m	45%	45%	45%	36%	36%
[50-99] €m	21%	19%	20%	22%	22%
[100-149] €m	10%	13%	15%	16%	18%
[150-500] €m	24%	23%	20%	26%	24%
Breakdown by deal type					
Strategic	76%	73%	71%	73%	76%
Buyout	24%	27%	29%	27%	24%
Breakdown by country					
France	26%	32%	33%	29%	18%
Germany	21%	18%	16%	16%	19%
Italy	16%	17%	18%	17%	21%
Benelux	13%	19%	14%	20%	21%
Spain-Portugal	13%	10%	8%	7%	11%
Other (euro zone)	11%	4%	11%	11%	10%
Breakdown by sector					
Energy, raw materials, chemicals	10%	9%	10%	15%	15%
Building, construction	5%	5%	4%	2%	4%
Industrial equipment	16%	9%	9%	16%	26%
Consumer products	6%	8%	2%	4%	6%
Agro-food	9%	7%	6%	6%	5%
Healthcare-Pharma	11%	16%	17%	15%	13%
Wholesale, retail	5%	5%	6%	6%	5%
Transport	8%	12%	16%	10%	8%
TMT	23%	21%	18%	18%	13%
Business and consumer services	7%	8%	12%	8%	5%
Multiples (median)					
EV / historic sales	1,2x	1,2x	1,0x	1,1x	1,1x
(Argos Index) EV / historic EBITDA	7,8x	8,1x	7,9x	7,8x	8,1x
EV / historic EBIT	9,6x	11,2x	11,2x	10,5x	11,1x
Price to Book	2,5x	2,2x	2,3x	2,4x	3,1x

Source: Argos Mid-Market Index / Epsilon Research
 NB: Equity Value (Eq.) = price paid for 100% of the shares / Enterprise Value (EV) = Eq. + net financial debt

Argos Soditic



Capital for your future ■■■

Argos Soditic is an independent European private equity group with offices in Paris, Milan, Geneva and Brussels.

Since its creation in 1989, Argos Soditic has carried out more than 60 transactions focusing on management buy-outs and buy-ins in small and medium companies. Argos Soditic typically takes majority stakes ranging from €10m to €60m in companies with revenues of €20m to €400m.

With €675m under management for MBO (€400m for the last fund), the firm has developed a track record of unusual, complex and off-market transactions where the firm's combination of local presence and international experience is able to add value to the small and medium-sized businesses it invests in.

Contacts: Gilles MOUGENOT – Raphaël BAZIN
Argos Soditic - 14, rue de Bassano – 75783 Paris Cedex 16, France
Tel. +33 1 53 67 20 50
www.argos-soditic.com

Epsilon Research



Epsilon Research is an independent research and financial analysis bureau specialising in the M&A/private equity markets. It provides research, deal analysis and market intelligence on private company M&A and LBO transactions.

Its key product, EMAT («Epsilon Multiple Analysis Tool™»), is the largest database for European private company transaction multiples, with detailed analysis of 5,000+ M&A deals (€1m to €500m value) covering all industry sectors. It has quickly become a reference source for its customers (investment funds, banks, accountants, M&A advisors).

Contact: Grégoire BUISSON
Epsilon Research - 7, rue Ambroise Thomas – 75009 Paris, France
Tel. +33 1 47 70 30 24
www.epsilon-research.com



Capital for your future ■■■



www.argos-soditic.com

14, rue de Bassano
75783 Paris Cedex 16
Tel: +33 1 53 67 20 50
Fax: +33 1 53 67 20 55

Piazza Diaz 5
20123 Milano
Tel: +39 02 00 660 700
Fax: +39 02 00 660 799

118, rue du Rhône
1204 Genève
Tel: +41 22 849 66 33
Fax: +41 22 849 66 27

Avenue Louise 391, Boîte 1
1050 Bruxelles
Tel: +32 2 554 12 40
Fax: +32 2 554 12 49