



# ARGOS

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# INDEX

the mid market reference

March 2015

The Mid-Market euro zone index

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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 €15m-€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:

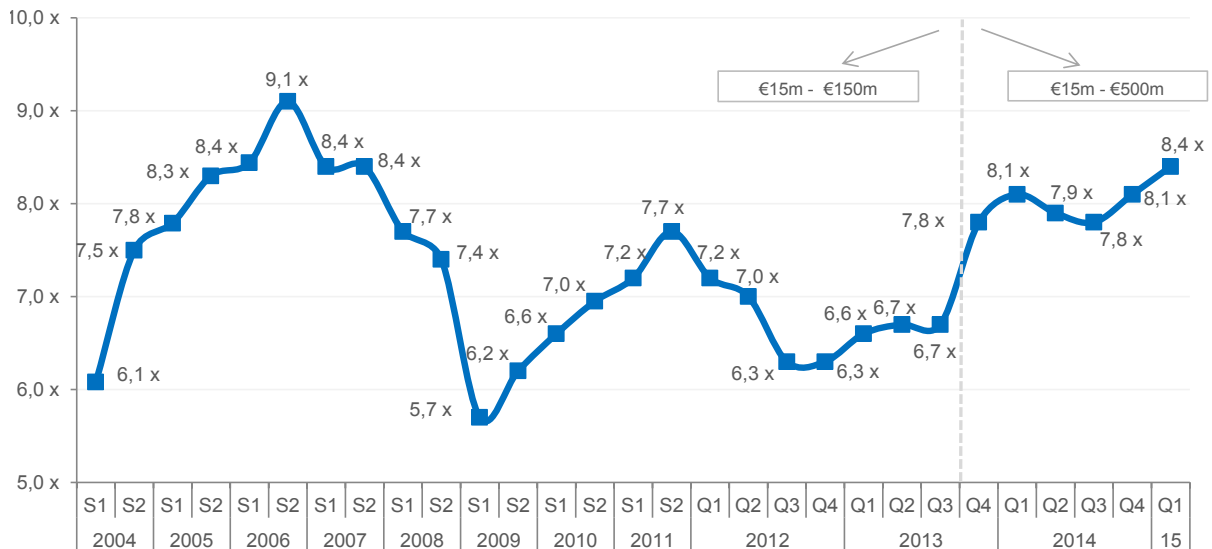
- professional partner databases: CorpfInDeals (transactions), CompanyQuery (company accounts),
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

## Continued growth in the index, driven by strategic buyers



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

The Argos Mid-Market index has continued to climb in the first quarter of 2015 (+4%) to 8.4x EBITDA.

This is linked to the big increase in price paid by trade buyers to 8.7x EBITDA (+9% compared to the 4th quarter of 2014) supported by the continued growth in stock markets and the renewed interest in the Eurozone of overseas buyers, particularly from North America.

Conversely, there is a marked disconnection of prices paid by private equity funds (-11% to 7.5x EBITDA) and the number of transactions (-20% in volume terms in the first

quarter). This could be explained by the determination of funds not to align themselves with prices offered by strategic buyers for certain assets, as in 2006 and 2007.

In general, M&A activity (in volume terms) remains stable in the Mid-Market, in a more favourable short term macro-economic environment in the Eurozone (ECB monetary policy, fall in the euro and the oil price). However, investors still don't seem to be convinced about more long term perspectives.

### Enlargement of the Argos Index:

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

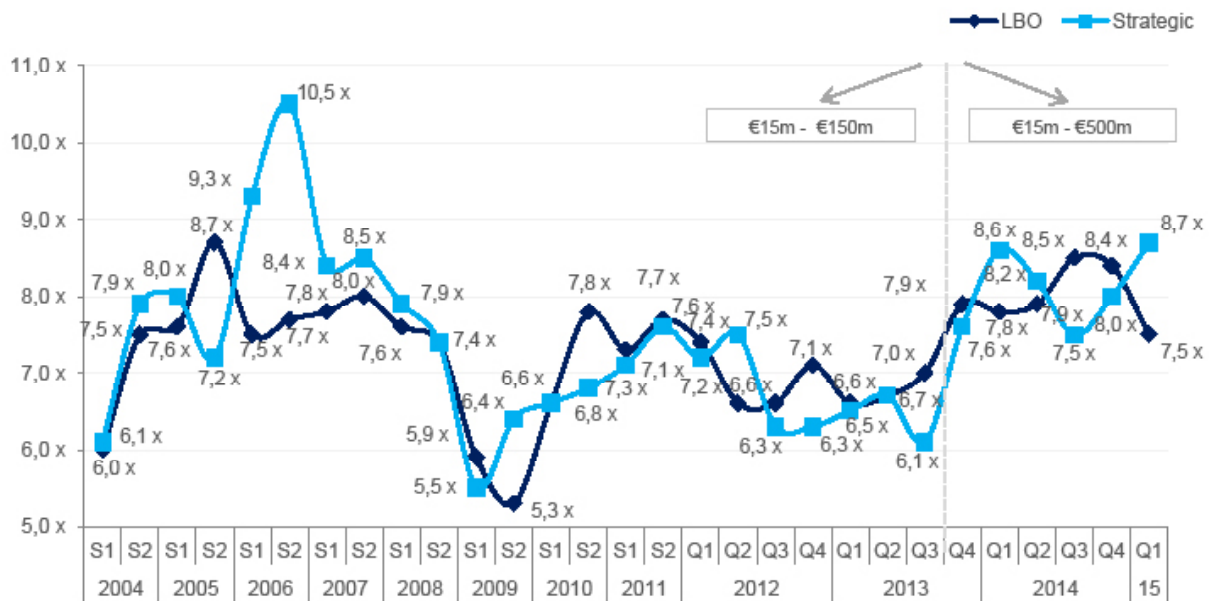
The Argos Mid-Market Index therefore covers transactions between €15m and €500m of equity value.

# Buyout vs strategic

## Multiples offered by private equity funds have fallen over the last two quarters (-12% since September 2014)

They reach a level well below the median multiple offered by strategic buyers, and in spite of favourable financing conditions and levels of « dry powder » which are still high. Acquisition multiples paid by trade buyers

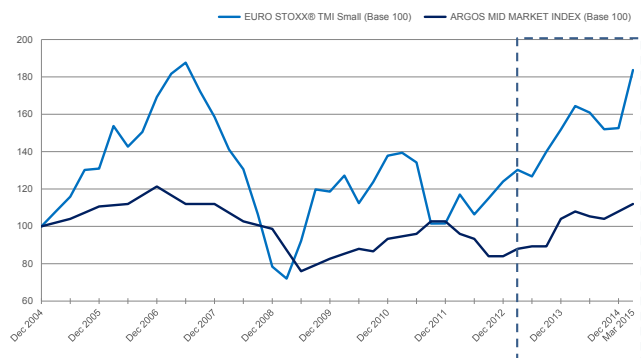
have seen a big increase in the first quarter of 2015 to reach 8.7x EBITDA (+9%). This evolution is linked to increases in stock markets that have accelerated in the first quarter<sup>(1)</sup>.



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

This increase also had a knock on effect on the acquisition multiples paid for non-quoted companies, especially because a large proportion (over 60%) of strategic buyers are quoted<sup>(2)</sup>.

The increase is also due to overseas buyers (in particular from North America – 40% of foreign buyers) who are more active in the European market following the fall in the Euro<sup>(3)</sup>, and who represent 60% of strategic buyers.



Comparison between the EURO STOXX®TMI Small and the Argos Mid-Market Index  
Source: Argos Mid-Market Index / Epsilon Research / Stox.com

(1) EURO STOXX® TMI Small Index has increased by 20% in Q1 2015 / (2) Epsilon/Corpin data – calculated over 6 months (Q4-2014/Q1-2015) / (3) Decrease of 26% over one year (at 31/03/2015) compared to the dollar

# Euro zone M&A trends

## Low levels of M&A activity in the Mid-Market

M&A Mid-Market activity in the Euro zone has remained weak in the first quarter. In volume terms, activity is stable compared to the previous quarter (+2%) but has fallen by 20% in value terms. In the €150m - €500m segment, which represents one quarter of Mid-Market transactions, the market is a little more active (+5% in volume).

This situation is peculiar to the European market: strong growth in value terms of the global M&A Market<sup>(1)</sup> (+20% in the 1st quarter) is driven by the US (+30%) while Europe decreased (-4%). The active monetary policy of the ECB which has resul-

ted in i) a reduction in interest rates, ii) a fall in the euro and iii) strong growth in stock markets, still hasn't had an impact in the recovery of business investment<sup>(2)</sup>. Private equity activity fell in the first quarter (20% drop in the number of transactions compared to the previous quarter). Funds seem to be less competitive in certain sales processes for quality assets when compared with strategic buyers who are offering high prices.

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

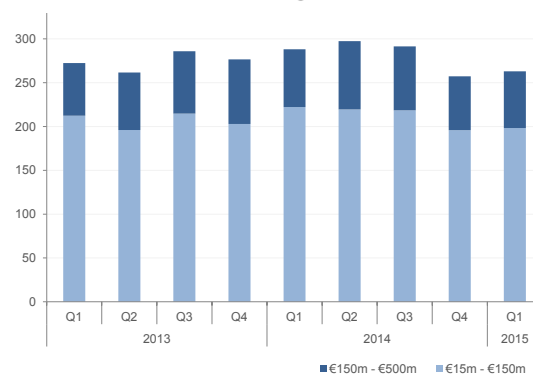


(\* ) Volume (left hand axis) / Value (right hand axis)

Hence:

- The number of trade acquisitions has increased by 8% in the first quarter;
- The proportion of M&A Market activity in the segment €150m - €500m attributable to private equity funds has diminished over the last 6 months (14% of the market, compared to an average of 18% for the period 2010-2014). However, activity in the segment €15m - €150m has remained stable (at 11%).

(1) Source: Thomson Reuters (Financial Times, 31.03.2015)  
(2) According to Euro zone Economic Outlook (8.04.2015), business investment has increased by 0.2% in the 1st quarter in the Euro zone, while GDP increased by 0.4%.



Source: Epsilon Research / CorpfmWorldwide

# 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	Q1 2015
<b>Samples size</b>						
Deals retained for the index	114	108	107	111	108	101
Average Equity Value (€m)	105,0	105,2	101,6	114,7	108,7	98,8
Average N-1 sales (€m)	116,3	137,1	183,3	186,2	139,7	154,1
N-1 EBITDA margin	13,2%	13,9%	13,1%	13,1%	13,3%	12,4%
N-1 EBIT margin	9,8%	9,8%	9,4%	9,6%	9,4%	8,0%
<b>Breakdown by size (Equity Value)</b>						
[15-49] €m	45%	45%	45%	36%	36%	43%
[50-99] €m	21%	19%	20%	22%	22%	20%
[100-149] €m	10%	13%	15%	16%	18%	15%
[150-500] €m	24%	23%	20%	26%	24%	22%
<b>Breakdown by deal type</b>						
Strategic	76%	73%	71%	73%	76%	71%
Buyout	24%	27%	29%	27%	24%	29%
<b>Breakdown by country</b>						
France	26%	32%	33%	29%	18%	15%
Germany	21%	18%	16%	16%	19%	22%
Italy	16%	17%	18%	17%	21%	29%
Benelux	13%	19%	14%	20%	21%	12%
Spain-Portugal	13%	10%	8%	7%	11%	13%
Other (euro zone)	11%	4%	11%	11%	10%	9%
<b>Breakdown by sector</b>						
Energy, raw materials, chemicals	10%	9%	10%	15%	15%	12%
Building, construction	5%	5%	4%	2%	4%	6%
Industrial equipment	16%	9%	9%	16%	26%	28%
Consumer products	6%	8%	2%	4%	6%	5%
Agro-food	9%	7%	6%	6%	5%	5%
Healthcare-Pharma	11%	16%	17%	15%	13%	10%
Wholesale, retail	5%	5%	6%	6%	5%	9%
Transport	8%	12%	16%	10%	8%	6%
TMT	23%	21%	18%	18%	13%	12%
Business and consumer services	7%	8%	12%	8%	5%	7%
<b>Multiples (median)</b>						
EV / historic sales	1,2x	1,2x	1,0x	1,1x	1,1x	1,0x
(Argos index) EV / historic EBITDA	7,8x	8,1x	7,9x	7,8x	8,1x	8,4x
EV / historic EBIT	9,6x	11,2x	11,2x	10,5x	11,1x	11,1x
Price to Book	2,5x	2,2x	2,3x	2,4x	3,1x	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.

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# 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).

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