



# ARGOS

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# INDEX

the mid market reference

December 2015

The Mid-Market eurozone 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:

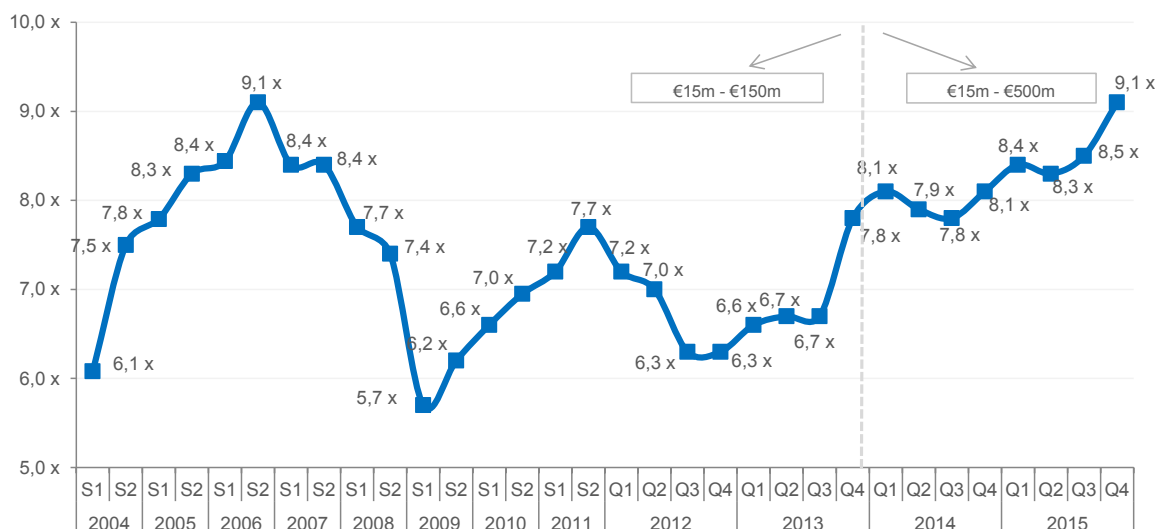
- professional partner databases: CorpfInDeals (transactions), CompanyQuery (company accounts),
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

## Growth of the Index accelerated to regain its all-time high level of 2006



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

In the 4th quarter of 2015, the Argos Mid-Market Index continued to increase (+7%) to 9.1x EBITDA, reaching its record level of the 2nd half of 2006. The Index is driven both by trade buyers whose prices have increased to 9.2x EBITDA as well as private equity funds which continue to offer prices at exceptional levels (9.0x EBITDA). In particular, the Argos Mid-Market Index was sustained by the *upper mid-market* segments (transactions between €150m and €500m) where multiples increased by 14% to 10.6x EBITDA.

This growth in the Argos Mid-Market Index over the 4th quarter is linked to strong increases in M&A activity (+45% in value and +7% in volume terms), which has benefitted from the stabilisation of the economic environment in the Eurozone and from investor confidence which, little by little, has recovered (most notably US and Asian investors). However, it should be noted that over the whole year (2015) growth in M&A activity is more limited. Further reasons for the increase in the Index are

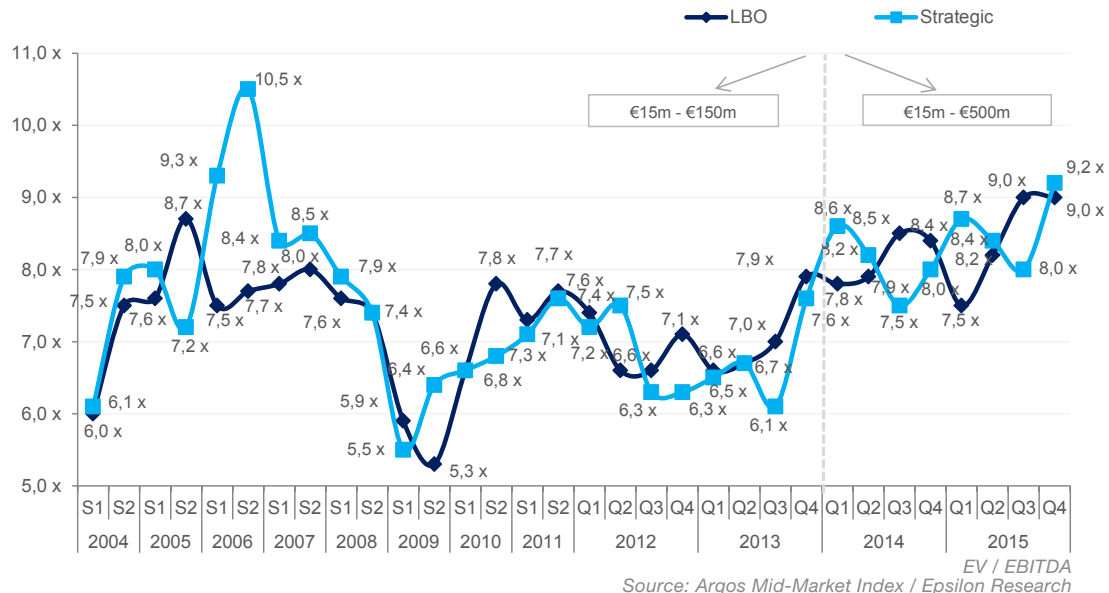
the exceptional financial conditions linked to interest rates maintained by the ECB at historically low levels. The consequence of this is an increase in valuations across all asset types, and most notably private companies: i) repercussions of increases in stock markets on prices paid by trade buyers, ii) increasing levels of “dry powder” in private equity funds.

The Eurozone M&A mid-market is slowly but surely catching up with the global M&A upward cyclical - but with delays i) in the Eurozone compared to the US as a result of the lag in the economic cycle between the two zones, and ii) of the mid-market segment compared to larger operations (i.e. those with an equity value higher than €500m), the latter of which better reflect the favourable market conditions (stock market, interest rates, financing) on valuation levels.

# Buyout vs strategic

## The multiples paid by strategic and buyout funds converge in the fourth quarter 2015

The growth in the Argos Mid-Market Index in the 4th quarter is driven by the recovery in multiples paid by trade buyers to 9.2x EBITDA, an increase of 15% compared to the 3rd quarter of 2015.

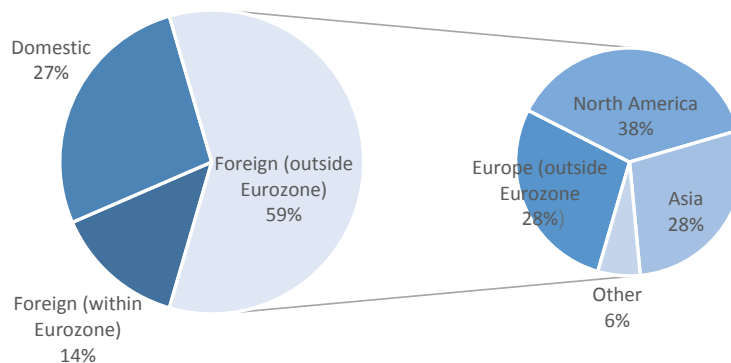


This large increase stems from a combination of :  
 - increases in mid-market M&A activity in the Eurozone (see section «M&A activity in the Eurozone»)  
 - recovery of stock markets in the 4th quarter of 2015 <sup>(1)</sup> which confirms the relationship between prices paid by strategic buyers and financial markets.  
 - the very high proportion of transactions realised

by overseas trade buyers: 27% of transactions were made by local buyers circa ¼ led by overseas buyers, of which 59% are outside the Eurozone (see graph below). American (38% of foreign buyers) and Asian buyers (28%, a record level) are benefitting from the fall in the Euro and remain particularly active <sup>(2)</sup>.

<sup>(1)</sup> EURO STOXX® TMI Small Index has recovered by 8.5% over the 4th quarter  
<sup>(2)</sup> Epsilon/CorpinDeals data

### Proportion of foreign buyers within strategic (2nd half 2015)



Private equity funds are also sustaining the increase in multiples (9.0x EBITDA) during the last quarter of 2015, which are at a higher level than the highest from the previous cycle (8.7x in 2005). Buyout activity remains stable in 2015 (in volume

and value), and the strong competition for available assets together with financing conditions which remain exceptional continue to keep multiples at high levels.

# M&A activity in the Eurozone

## Growth in M&A mid-market activity in the last quarter

Over the full year 2015, M&A mid-market activity progressed by 3% in volume and remained stable in value terms.

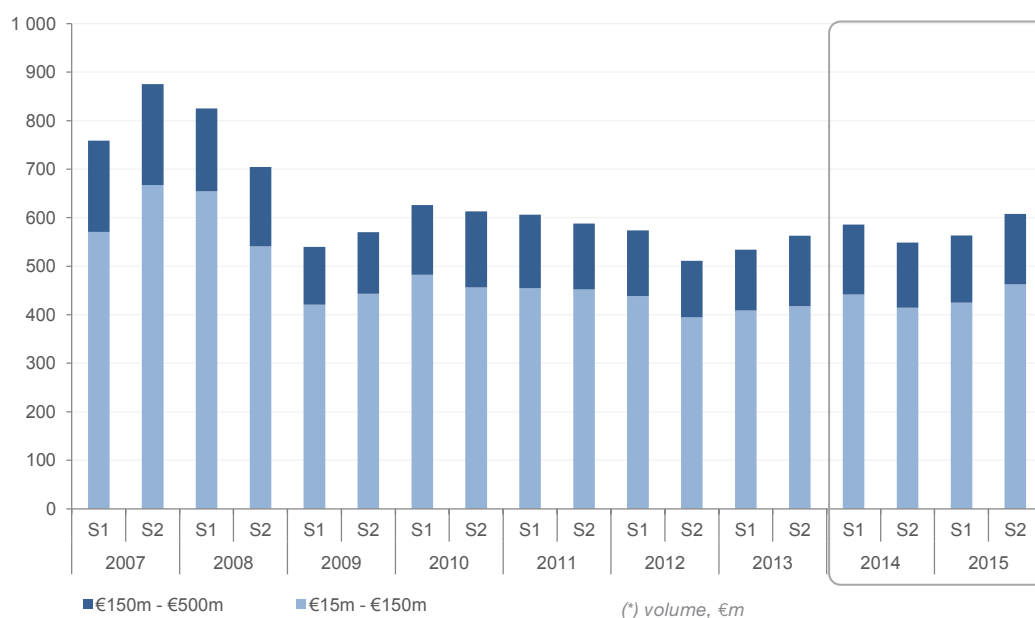
The recovery in activity confirms the measured return of investor confidence in the Eurozone economy. In particular, the external growth policy of some companies which are benefitting from financing conditions which remain optimal (treasury, debt financing capacity, interest rates) serves a number of objectives: looking for growth opportunities in a stable economic context, consolidation of certain

sectors, or a desire to diversify and protect a strategic model through an acquisition of new technology.

Activity still remains well below the strong recovery in global M&A activity in 2015 <sup>(1)</sup> and highlights the gap between the M&A cycle in Europe with the rest of the world: in 2015, Europe covers only 19% of global M&A activity in value terms against 39% in 2014.

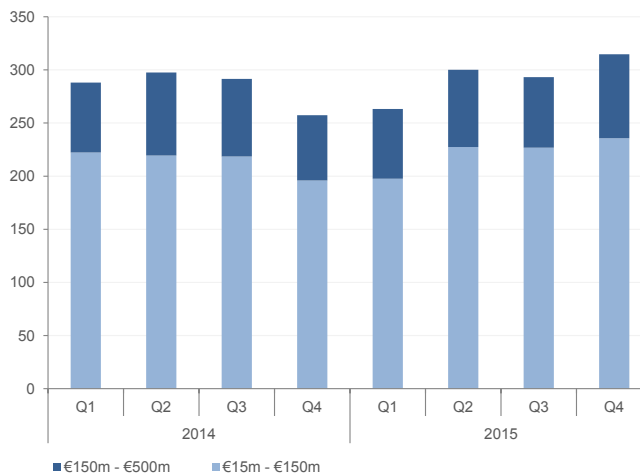
<sup>(1)</sup> Activity has increased by 37% in value terms to \$4.59tn, driven by « megadeals » (137 deals larger than \$5bn in equity value terms), of which \$2.48tn were in the US (+62%), \$1.05tn in Asia (+49%), \$0.88tn in Europe (+4%) – Source : Thomson Reuters, Financial Times, 22.12.2015

Mid-Market Activity in the Eurozone in volume (€15m - €500m)\*



Mid-Market Activity in the Eurozone, by segment

In the 4th quarter of 2015, M&A mid-market activity in the Eurozone increased by 7% in volume and 45% in value. This growth is driven largely by the upper mid-market segment (€150m-€500m), which has increased by 20% in volume and 57% in value terms.



Source: Epsilon Research / CorpfInWorldwide

# Argos Soditic



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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 developed the first online platform for the management of non-quoted M&A transactions, aimed at professionals: M&A advisers, private equity funds, valuers, corporates. The Epsilon Platform includes data, analysis reports, software tools and services essential to private company valuation / deal management:

- (1) EMAT, the largest database of European private company transaction multiples, with detailed analysis of 6,000+ M&A deals, ranging from €1m to €500m in value, covering all industry sectors;
- (2) Indices and studies published regularly by Epsilon, such as the Argos Index;
- (3) Cloud-based software for M&A contacts and project management ("M&A CRM Suite"); and for valuation projects (comparables, private equity fund portfolios).

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