



# ARGOS

# INDEX

the mid market reference

## December 2016

The Mid-Market Eurozone Index

Prepared by  
Argos Soditic & Epsilon Research



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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:

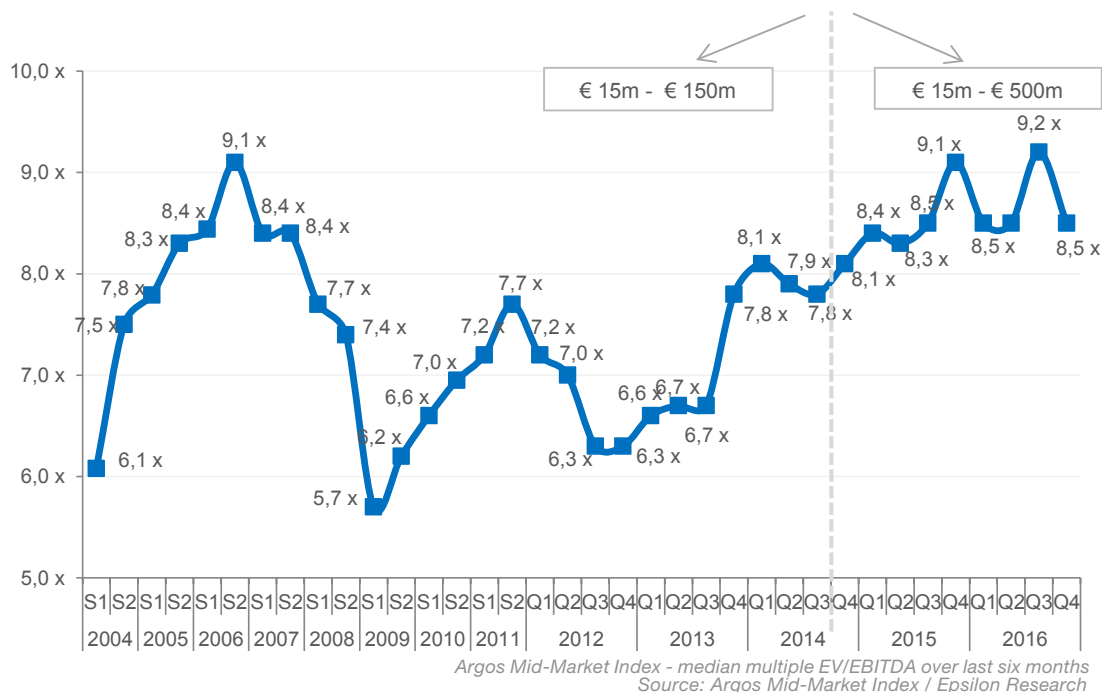
- professional partner databases: CorpfInDeals (transactions), CompanyQuery (company accounts),
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

## Decline to 8.5x EBITDA of the Argos Mid-Market Index in the 4th quarter



The Argos Mid-Market Index has fallen by 7.6% in the 4th quarter to 8.5x EBITDA, linked to the sharp fall in multiples in the segment with transactions between €150m and €500m (-13.3% to 9.1x EBITDA) and in multiples paid by trade buyers (-11.5% to 8.5x EBITDA). On the other hand, prices paid by buyout funds continued to increase (+2.3% to 8.9x EBITDA) driven by the continuing competition between financial buyers and the ever-growing amount of capital available to invest.

The general downturn in the Argos Mid-Market Index arises in a context of falling M&A Mid-Market activity for the Eurozone in the 4th quarter (-14% in volume and -11% in value). The downward trend in M&A activity and prices reflects the uncertainties arising from political events in the second half of 2016 (Brexit, US election, Italian referendum). Furthermore, an increase in long rates and in the spread of interest rates <sup>(1)</sup> within the Eurozone is starting to impact the cost of capital and return prospects.

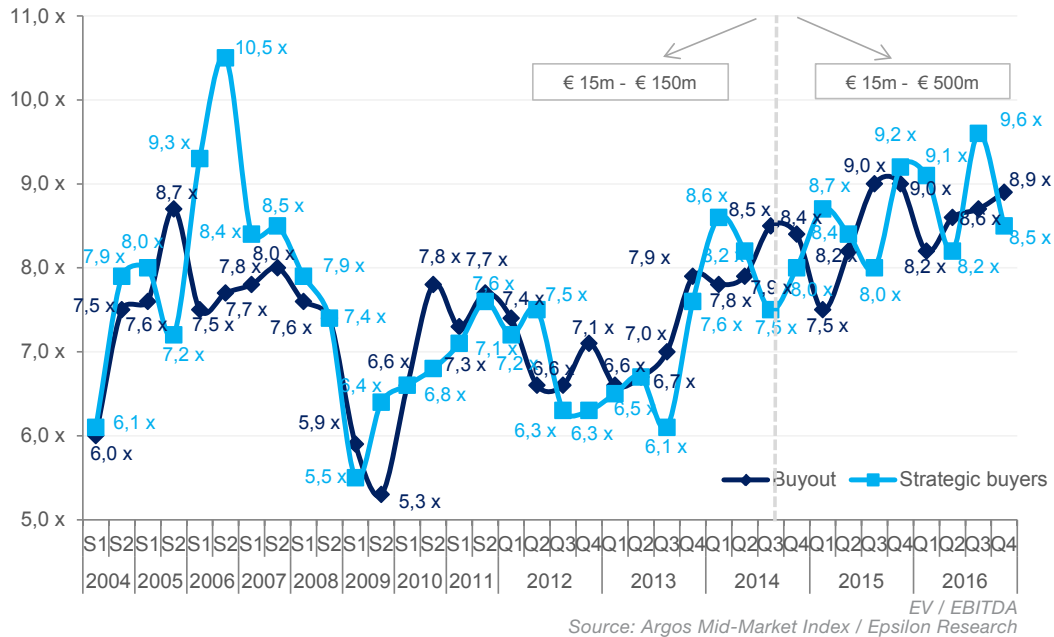
Over an extended period, prices remain high, supported by the M&A activity in Europe (+9% in volume and +10% in value over 2016), financial conditions which continue to be favourable, and a buoyant micro-economic climate. In this context, the anticipated effect of Brexit on M&A activity in the 4th quarter was more pronounced in the Eurozone than in the UK ; investors are taking advantage of the fall in sterling to accelerate the acquisition of British companies (+11% in volume and +52% in value).

(1) In the 4th quarter, long term interests rates increased from -0.1% to 0.25% in Germany, from 0.18% to 0.76% in France, and from 1.27% to 1.89% in Italy (source : data OECD)..

# Buyout vs strategic buyers

## Strong growth in prices paid by trade buyers

The fall in the Index arises from decreases in the prices paid by strategic buyers



Source: Argos Mid-Market Index / Epsilon Research

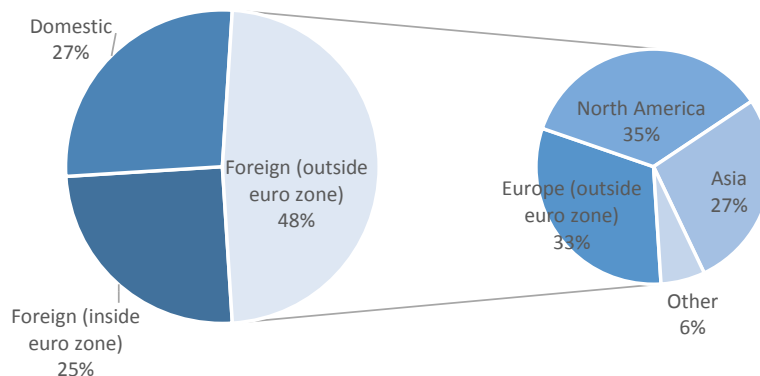
The decline in the Index in the 4th quarter is linked to the net fall in multiples paid by strategic buyers to 8.5x EBITDA. They have been affected by the weakness in the stock market <sup>(1)</sup>, particularly since a significant proportion of strategic buyers are quoted (63% in the 2nd half of 2016 vs. an average of 58% from 2010 to 2015).

(vs. 57% in 2015). However, over the last three years, multiples paid by overseas buyers were 10% higher than those buyers situated in the Eurozone <sup>(2)</sup>.

Multiples have also been affected by the relative withdrawal of overseas buyers (i.e. situated outside the Eurozone) who represented 48% of trade buyers in the Eurozone in the 2nd half of 2016

The proportion of US buyers, among those not located in the Eurozone, has fallen from 44% in the 1st half of 2016 to 35% in the 2nd half, with increases in Asian and European (outside the Eurozone) buyers where proportions are now 27% and 33% (respectively) of trade buyers.

Percentage of foreign buyers amongst the strategic players (2nd half 2016)



Multiples paid by buyout funds showed continued growth to 8.9x EBITDA (+2.3% compared to the 3rd quarter of 2016). Despite the decline in the number of Mid-Market transactions in the 4th quarter (-14% in volume), prices are propped up by the competition between funds and by the continuing high levels of capital available to invest <sup>(3)</sup>.

(1) Source : EMAT base / Epsilon Research

(2) Fall of 5% in the EURO STOXX® TMI Small Index over October to November 2016, followed by an increase of 7.5% in December.

(3) Total amount of dry powder allocated to buyout in the world amounts to \$534bn as at 31.12.2016, an increase of 15% since 31.12.2015 (Source : Preqin)

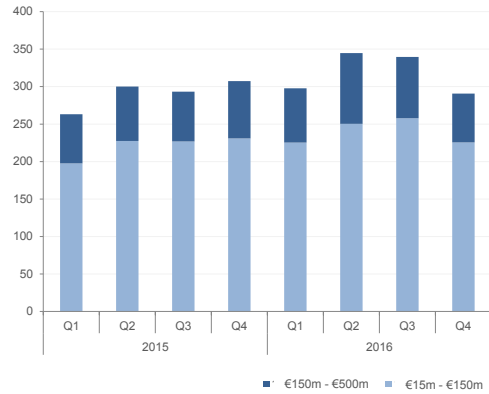
# M&A activity in the Eurozone

## Fall in Mid-Market M&A activity in the Eurozone in the 4th quarter

Mid-Market Activity in the Eurozone, by segment

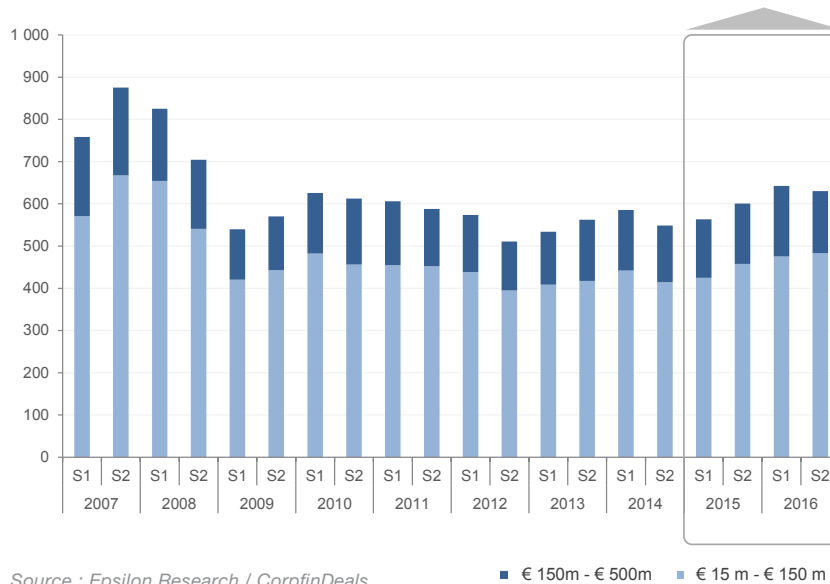
M&A Mid-Market activity in the Eurozone has fallen in the 4th quarter (-14% in volume and -11% in value), in particular for the segment of transactions between €150m and €500m (-20% in volume and -23% in value).

Market dynamics for the entire year 2016 remain positive however: the volume of activity is stable in the second half progressing by 9% in volume and 10% in value over 12 months. The increasing European M&A activity (+4% per year in volume/+9% in value since 2012) continues to be driven by favourable financial conditions and a micro-economic environment which continues to be positive.



Source : Epsilon Research / CorpinVeas

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



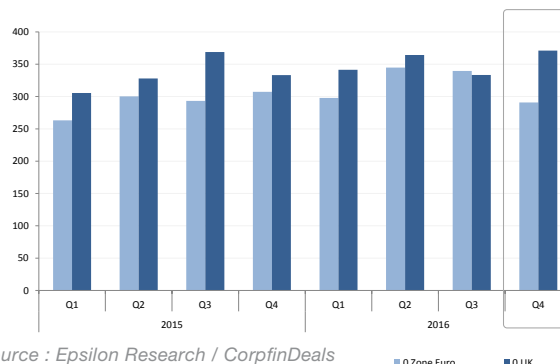
Source : Epsilon Research / CorpinDeals

## Impact of Brexit? Strong growth in M&A Mid-Market activity in the UK

In the 4th quarter, Brexit had an unexpected impact on M&A activity in the UK: strong growth in acquisitions of UK companies (+11% in volume, +52% in value) compared to the decline in activity in the Eurozone. Beyond the questions about the

economic consequences of Brexit, it appears that overseas investors are taking advantage of the drop in sterling (-18% between 1st January and 1st November 2016) to accelerate their acquisitions in the UK.

Eurozone activity vs UK (€15m - €500m)



Source : Epsilon Research / CorpinDeals

# Analyse de l'échantillon

## 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 2014.

	S1 2014	S2 2014	S1 2015	S2 2015	S1 2016	Q3 2016	Q4 2016	
<b>Samples size</b>								<b>Taille des échantillons</b>
Deals retained for the index	107	108	98	100	92	109	104	Transactions retenues pour l'indice
Average Equity Value (€m)	101,6	108,7	124,0	109,2	134,6	139,3	128,5	Valeur d'Equity moyenne (M€)
Average N-1 sales (€m)	183,3	139,7	154,8	120,8	158,4	158,4	133,3	Chiffre d'affaires moyen (N-1)
N-1 EBITDA margin	13,1%	13,3%	16,3%	15,3%	14,1%	14,9%	12,0%	Marge d'EBITDA (N-1)
N-1 EBIT margin	9,4%	9,4%	10,9%	9,5%	9,1%	9,9%	8,7%	Marge d'EBIT (N-1)
<b>Breakdown by size (Equity Value)</b>								<b>Répartition par taille (Valeur d'Equity)</b>
[15-49] €m	45%	36%	36%	42%	25%	28%	37,0%	[15-49] M€
[50-99] €m	20%	22%	21%	29%	29%	20%	15,0%	[50-99] M€
[100-149] €m	15%	18%	12%	6%	17%	18%	12,0%	[100-149] M€
[150-500] €m	20%	24%	31%	23%	29%	34%	37,0%	[150-500] M€
<b>Breakdown by deal type</b>								<b>Répartition par type de transaction</b>
Strategic Buyers	71%	76%	65%	78%	65%	60%	69%	Strategic Buyers
Buyout	29%	24%	35%	22%	35%	40%	31%	Buyout
<b>Breakdown by country</b>								<b>Répartition par pays</b>
France	33%	18%	30%	25%	34%	42%	28%	France
Germany	16%	19%	17%	15%	16%	10%	20%	Allemagne
Italy	18%	21%	23%	24%	26%	20%	13%	Italie
Benelux	14%	21%	14%	17%	4%	9%	13%	Benelux
Spain-Portugal	8%	11%	8%	9%	7%	9%	13%	Espagne-Portugal
Other (euro zone)	11%	10%	8%	10%	13%	10%	13%	Autre (zone euro)
<b>Breakdown by sector</b>								<b>Répartition par secteur d'activité</b>
Energy, raw materials, chemicals	10%	15%	10%	4%	13%	11%	16%	Energie, matières premières, chimie
Building, construction	4%	4%	9%	3%	8%	3%	3%	BTP
Industrial equipment	9%	26%	18%	21%	17%	14%	13%	Biens d'équipement
Consumer products	2%	6%	2%	3%	2%	3%	6%	Produits de consommation courante
Agro-food	6%	5%	5%	10%	3%	6%	8%	Agroalimentaire
Healthcare-Pharma	17%	13%	8%	12%	9%	7%	8%	Santé - Pharma
Wholesale, retail	6%	5%	13%	6%	6%	10%	7%	Distribution
Transport	16%	8%	8%	11%	11%	9%	8%	Transport
TMT	18%	13%	21%	20%	16%	20%	18%	TMT
Business and consumer services	12%	5%	6%	10%	15%	17%	13%	Services aux entreprises & particuliers
<b>Multiples (median)</b>								<b>Multiples (médiane)</b>
EV / historic sales	1,0x	1,1x	1,2x	1,2x	1,3x	1,3x	1,1x	EV / Chiffre d'Affaires historique
(Argos index) EV / historic EBITDA	<b>7,9x</b>	<b>8,1x</b>	<b>8,3x</b>	<b>9,1x</b>	<b>8,5x</b>	<b>9,2x</b>	<b>8,5x</b>	EV / EBITDA historique (indice Argos)
EV / historic EBIT	11,2x	11,1x	10,4x	12,5x	12,9x	12,0x	12,3x	EV / EBIT historique
Price to Book	2,3x	3,1x	3,3x	3,2x	4,3x	4,0x	3,2x	Price to Book

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



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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 70 transactions focusing on management buy-outs and buy-ins in small and medium companies. Argos Soditic typically takes majority stakes ranging from €10m to €100m in companies with revenues of €20m to €600m.

With €675m under management for MBO, 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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