



# ARGOS

# INDEX

the mid market reference

## September 2017

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:

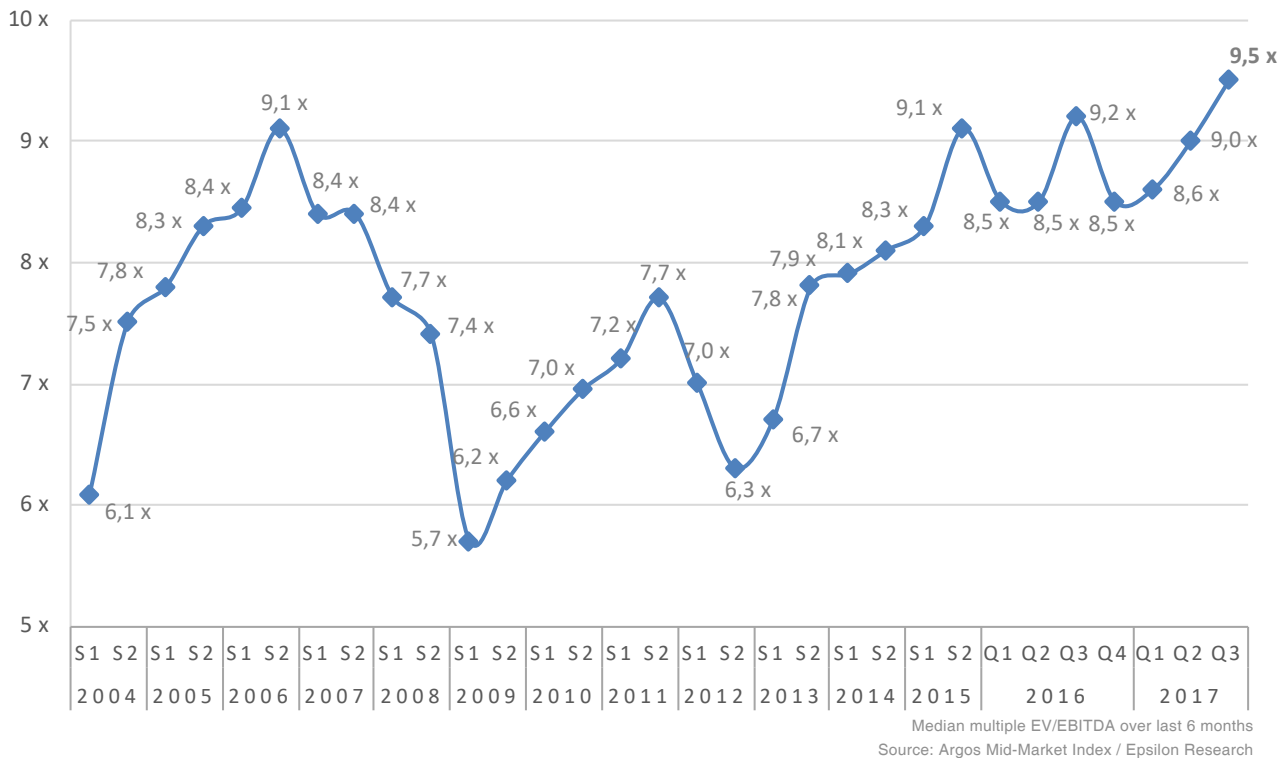
- professional partner databases: CorpfinDeals (transactions), CompanyQuery (company accounts), Infront Analytics (listed companies)
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

## Increase of the Index to its highest ever level



The Argos Mid-Market Index has seen a big increase in the 3rd quarter (+5.6%) to 9.5x EBITDA, and reaches record levels – beating the peaks registered in 2006 and 2016. This quarter, the increase is stronger in the lower mid-market (transactions between €15m and €150m), where multiples grew by 5.6% and M&A increased by 13% in volume and 30% in value. At the same time, prices in the upper mid-market fell by 3% with activity falling by 5% in volume.

The market dynamics are comparable to 2006:

- a record index driven by the very large increases in prices paid by strategic buyers (+9.4% compared to the 2nd quarter to

10.6x EBITDA), and directly correlated to the continued increase in stock markets and multiples of quoted companies.

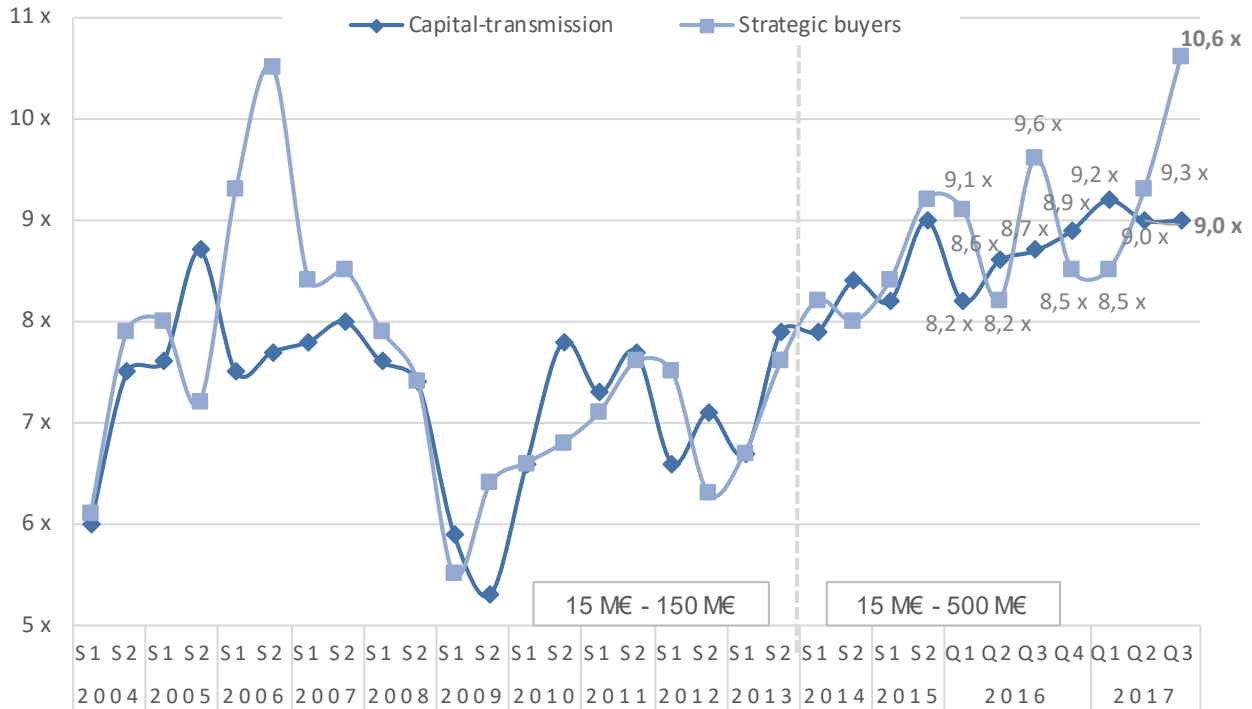
- multiples paid by private equity funds have stabilised (9.0x EBITDA), albeit at a high level, but remaining considerably lower than the soaring prices paid by strategic buyers.

The growth in M&A activity and the price of non-quoted companies is sustained by an economic and financial environment which remains favourable, a combination of the acceleration of the economic growth in the Eurozone<sup>(1)</sup> and the continuing low interest rates.

<sup>(1)</sup> Nominal GDP growth rates in the Eurozone of 2.1% in 2017, 1.8% in 2017 according to Bloomberg estimates.

# Buyout capital vs strategic buyers

## Record increase in prices paid by industrials



Mmedian multiple EV/EBITDA over last 6 months  
Source: Argos Mid-Market Index / Epsilon Research

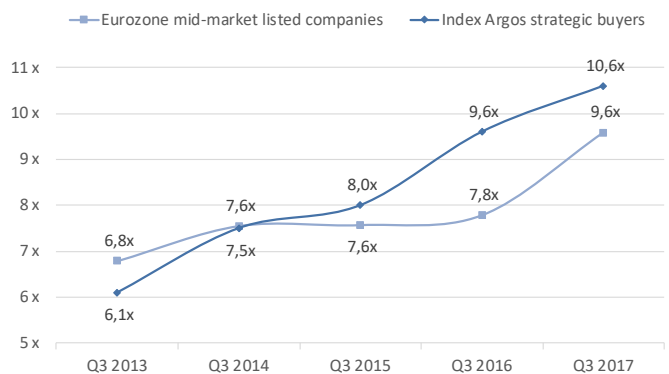
The increase in the Index in the 3rd quarter, is sustained by the large jump in multiples paid by strategic buyers, to 10.6x EBITDA.

This is driven by the increase in stock markets in the 3rd quarter of 2017<sup>(2)</sup>, and is very comparable to the evolution of quoted company multiples <sup>(3)</sup> (see graph opposite).

Prices paid by industrials are at their highest level since 2006: 18% above prices paid by private equity funds.

In fact, multiples paid by PE funds have stabilised in the 3rd quarter at 9.0x EBITDA, a level which remains above prices paid in 2006 but which has not increased for several quarters.

Furthermore, in this low interest rate environment, the leverage used in European equity capital transactions has increased to 6x EBITDA according to data from Fitch.



Source: Argos Mid-Market Index / Epsilon Research / Infront Analytics

<sup>(2)</sup> Increase of 5% in the EURO STOXX® TMI Small Index over the 3rd quarter

<sup>(3)</sup> EV/ LTM EBITDA, Mid Market eurozone listed companies (Source : Infront Analytics)

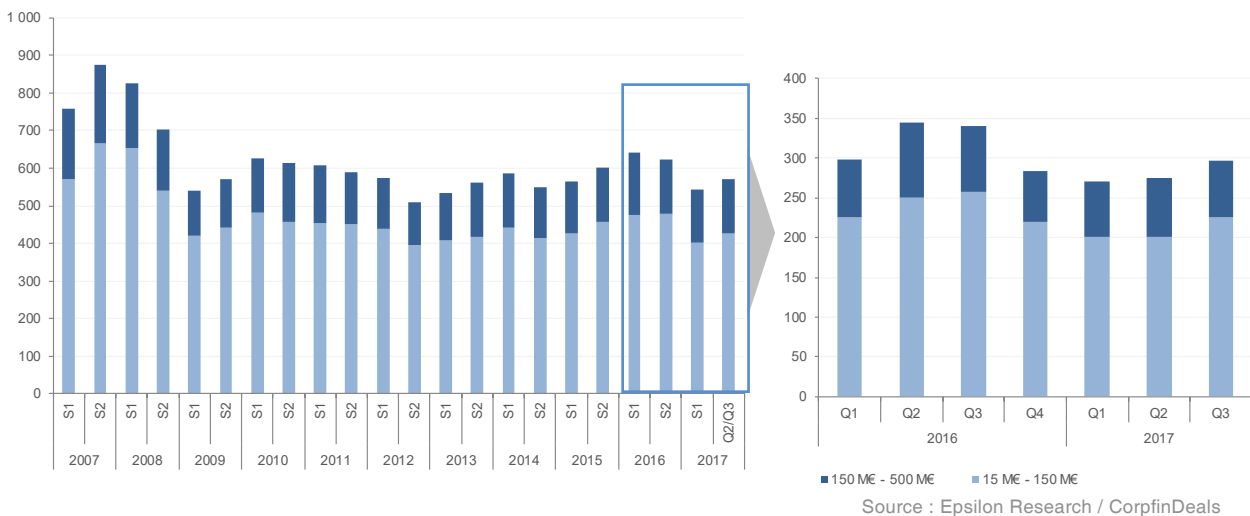
# M&A activity in the Eurozone

## Recovery of M&A Mid-Market activity in the Eurozone

In the 3rd quarter, Eurozone M&A Mid-Market activity increased by 8% in volume, 7% in value, driven by the transaction segment between €15m and €150m (+13% in volume / +30% in value).

This recovery has happened in a global M&A market which has risen sharply in Europe, by 28% in value<sup>(3)</sup> over the first 3 quarters of 2017.

Mid-Market Activity in the Eurozone in volume

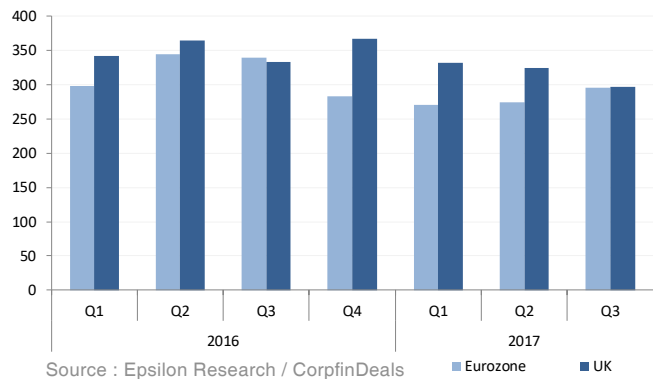


The economic and financial environment remains exceptionally favourable for the merger and acquisition market: controlled inflation, low interest rates, record levels of cash to invest in large quoted companies.

As a result of Brexit, the UK M&A Mid-Market is the reverse of that in the Eurozone and continues to decline: by 8% in volume and 18% in value over the quarter.

The only constraint, illustrated by the measured increase in the number of transactions, appears to be linked to the limited number of quality medium sized enterprises which are available on the market.

Mid-Market M&A Deals - Volume Eurozone vs UK



<sup>(3)</sup> Source: Thomson Reuters in FT, 29.09.2017

## Analysis of the sample

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 2015.

	S1 2015	S2 2015	S1 2016	S2 2016	S1 2017	Q3 2017
<b>Samples size</b>						
Deals retained for the index	98	100	92	104	85	103
Average Equity Value (€m)	124,0	109,2	134,6	128,5	149,7	147,9
Average N-1 sales (€m)	154,8	120,8	158,4	133,3	131,2	123,5
N-1 EBITDA margin	16,3%	15,3%	14,1%	12,0%	14,5%	14,2%
N-1 EBIT margin	10,9%	9,5%	9,1%	8,7%	7,9%	10,6%
<b>Breakdown by size (Equity Value)</b>						
[15-49] €m	36%	42%	25%	37%	27,0%	28,0%
[50-99] €m	21%	29%	29%	15%	18,0%	14,0%
[100-149] €m	12%	6%	17%	12%	13,0%	18,0%
[150-500] €m	31%	23%	29%	37%	42,0%	40,0%
<b>Breakdown by deal type</b>						
Acquisition	65%	78%	65%	69%	65%	60%
LBO	35%	22%	35%	31%	35%	40%
<b>Breakdown by country</b>						
France	30%	25%	34%	28%	35,0%	38,0%
Germany	17%	15%	16%	20%	14,0%	11,0%
Italy	23%	24%	26%	13%	15,0%	21,0%
Benelux	14%	17%	4%	13%	12,0%	10,0%
Spain-Portugal	8%	9%	7%	13%	11,0%	7,0%
Other (euro zone)	8%	10%	13%	13%	13,0%	13,0%
<b>Breakdown by sector</b>						
Energy, raw materials, chemicals	10%	4%	13%	16%	10%	8%
Building, construction	9%	3%	8%	3%	5%	5%
Industrial equipment	18%	21%	17%	13%	20%	18%
Consumer products	2%	3%	2%	6%	2%	4%
Agro-food	5%	10%	3%	8%	5%	6%
Healthcare-Pharma	8%	12%	9%	8%	13%	8%
Wholesale, retail	13%	6%	6%	7%	4%	10%
Transport	8%	11%	11%	8%	9%	7%
TMT	21%	20%	16%	18%	20%	20%
Business and consumer services	6%	10%	15%	13%	12%	14%

Source : Argos Mid-Market Index / Epsilon Research

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 Brussels, Frankfurt, Geneva, Milan and Paris. Since its creation in 1989, Argos Soditic has carried out more than 75 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 €900m under management, its investment philosophy aims at creating value through business transformation and growth, instead of financial leverage, and bringing solutions to complex situations.

They work in close relationship with management teams, with a strong sense of transparency, trust, entrepreneurship and social responsibility.

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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 7,500+ 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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