
SEPTEMBER 2018

The Mid-Market Eurozone Index



argos

index

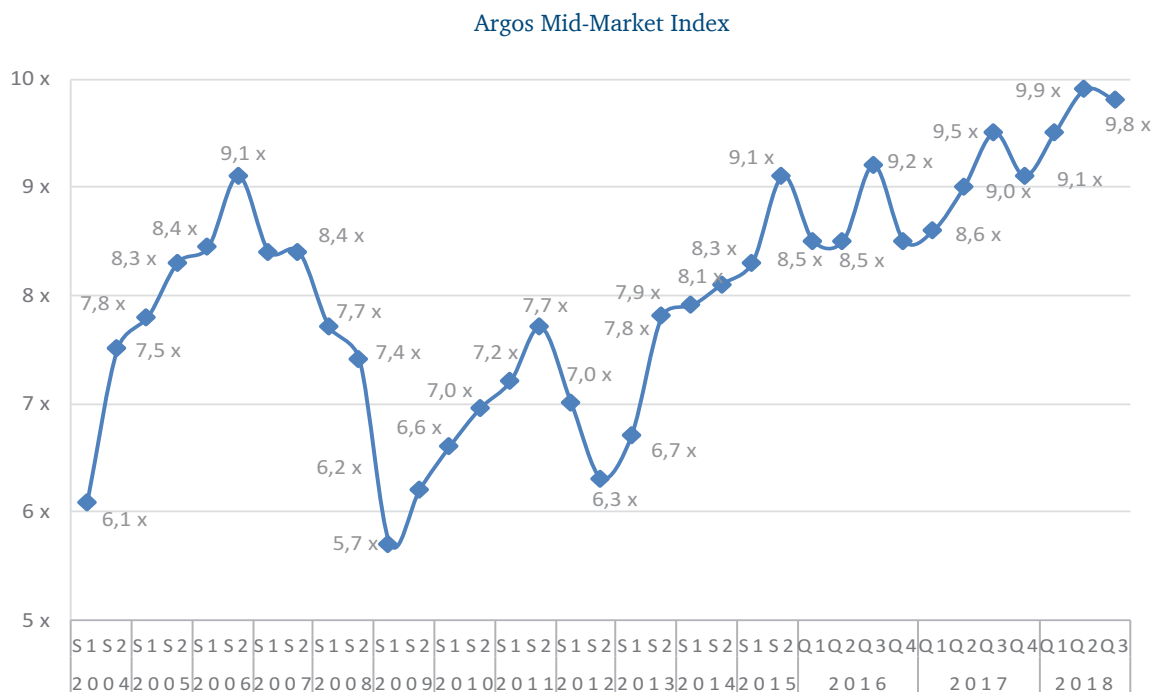
The mid market reference

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Prepared by Argos Wityu & Epsilon Research

Evolution of the index

- ▶ The index has stabilised at a high level in the third quarter, despite signs of moderation by funds



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

The Argos Mid-Market Index has stabilised in the 3rd quarter at 9.8x EBITDA, very slightly below the 2nd quarter.

Prices paid by strategic buyers remain high at 9.9x EBITDA. However those paid by private equity funds have decreased to 9.3x EBITDA (vs. 9.9x in the 2nd quarter) which depicts strong discipline in acquisition prices paid by European fund managers.

Prices have been driven by the recovery in M&A mid-market activity in the Eurozone in the 3rd quarter, which is back to 2017 levels after a fall in volumes at the beginning of the year.

The political unrest in Europe and international commercial tensions have not yet had an impact on non-quoted pricing, as opposed to quoted Mid-Market ⁽¹⁾ companies valuation, which have fallen by 5% to 9.0x EBITDA this quarter.

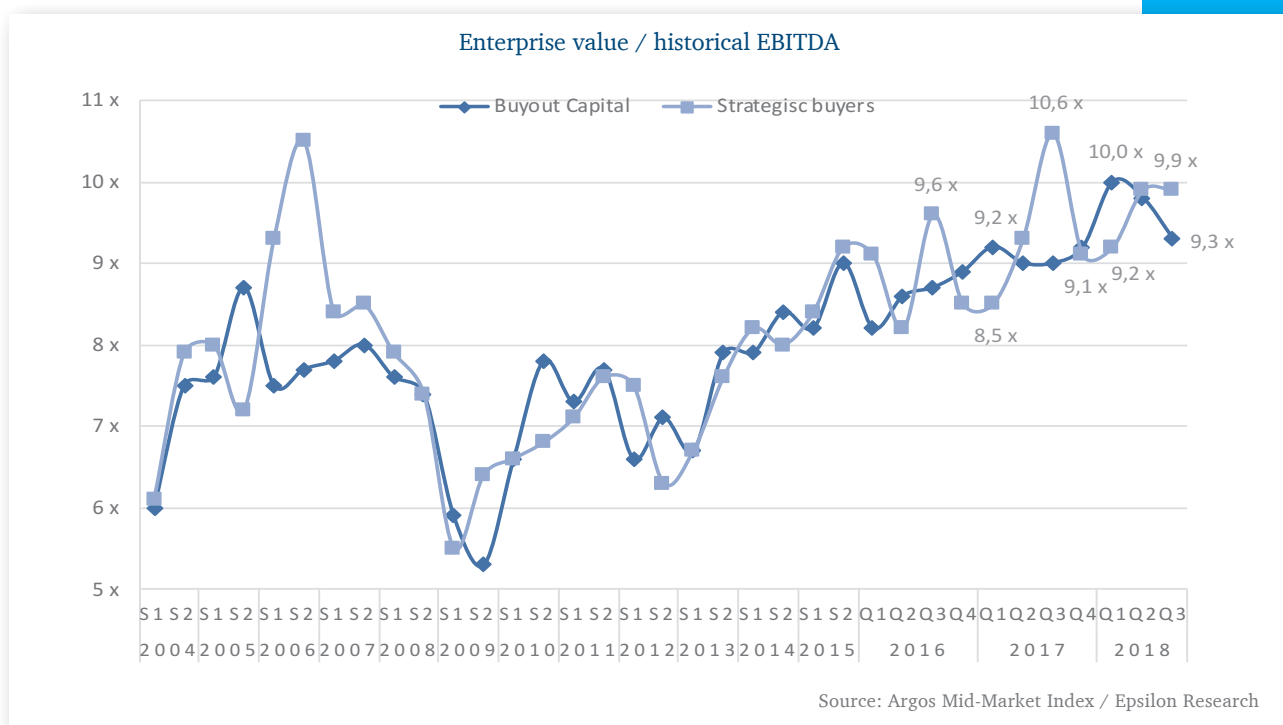
Despite high pricing, the non-quoted sector continues to attract investors, as witnessed by the continued increase of funds raised and dry powder ⁽²⁾.

(1) Source: Infront Analytics – cf. Graph 3

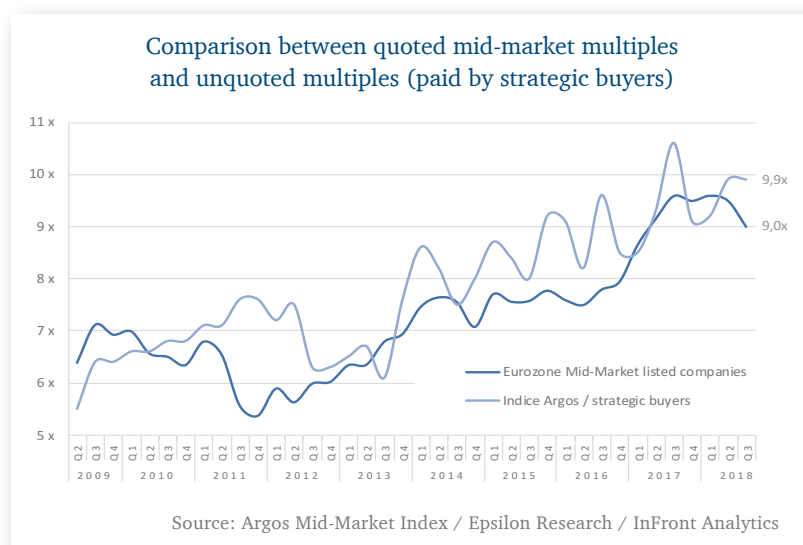
(2) The amount of dry powder of buyout funds is \$614 billion at 30.06.18, of which \$192 billion are in Europe (+4% compared to 31.12.2017) – Source : Preqin Quarterly Private Equity Update Q2 2018

Buyout capital vs strategic buyers

Prices paid by strategic buyers remain at high levels, while private equity funds show more restraint



Multiples paid by strategic buyers remain high at 9.9x EBITDA in the 3rd quarter. They continue to be sustained by large quoted groups, which represent 68% of strategic buyers this quarter, and by overseas buyers (58%). The decrease in the valuation multiple of quoted Mid-Market groups in the 3rd quarter has still not had an impact on acquisition multiples of non-quoted targets by strategic buyers.



Prices paid by PE funds have fallen by 5% to 9.2x EBITDA, but remain at historical highs, in a market where the level of activity is still high. This decrease shows signs of moderation, which is also depicted in reasonable levels of current debt leverage (debt financing reaches 50% of enterprise value vs. 65% in 2007⁽¹⁾), in a context where interest rates are much lower than in 2007⁽²⁾.

Next quarter will confirm or otherwise the new decreasing trend in acquisition multiples paid by private equity funds and we will see if it spreads to the large cap market⁽³⁾.

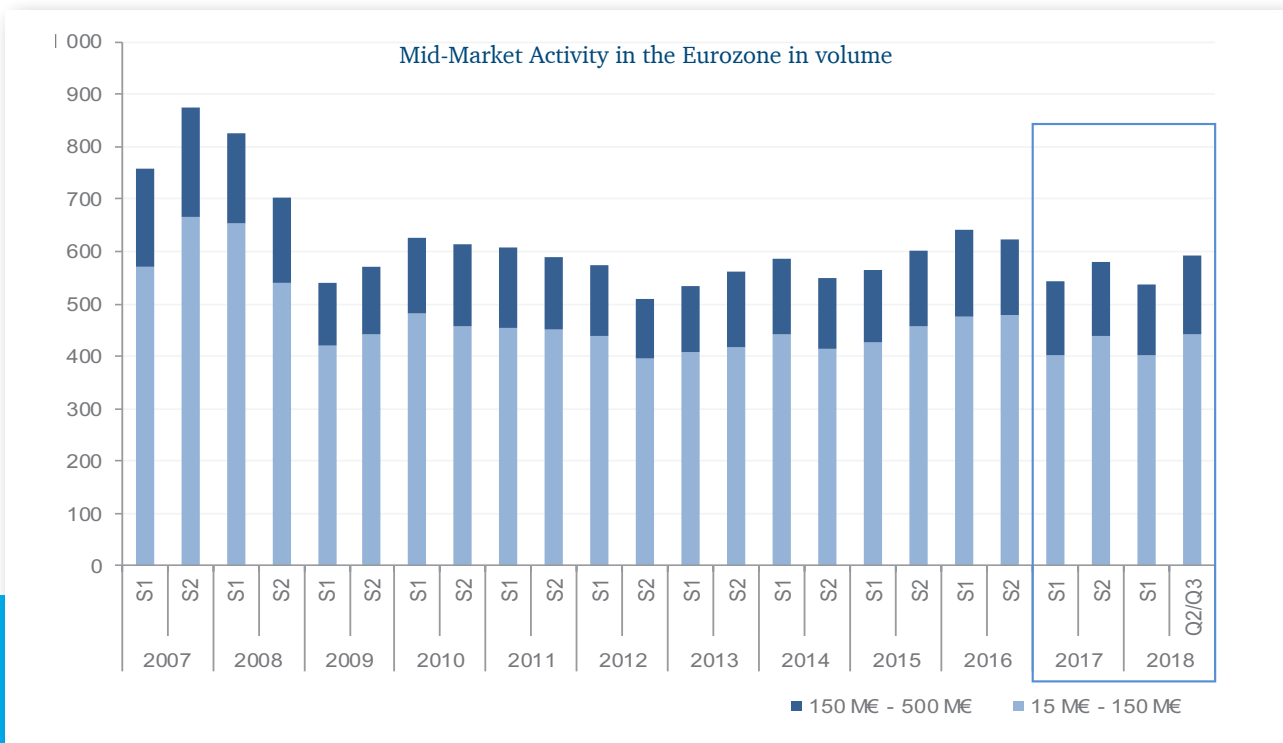
(1) Source: Goldman Sachs / Prequin as of June 30, 2018 for the whole European market (incl. large cap market and outside the Eurozone)
 (2) Euribor-12m at -0.158% as of October 1st, 2018 vs. 4.101% as of October 1st, 2007
 (3) Prequin data are issued every semester. Currently, the latest acquisition multiple available is 10.2x EBITDA in the 1st semester 2018 for European private equity funds (with an overrepresentation of the large cap market), with no sign of slackening

M&A activity in the Eurozone

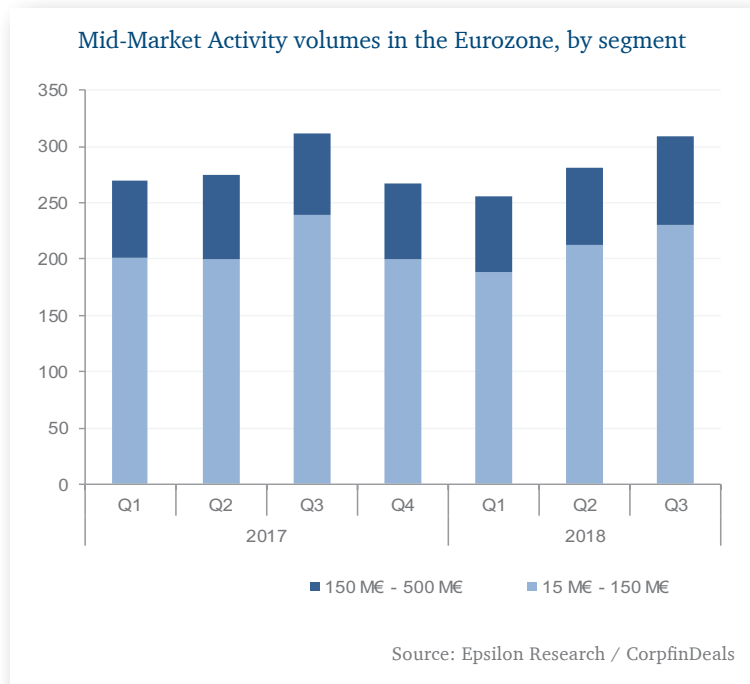
Recovery in M&A activity in the 3rd quarter

After the dip at the beginning of the year, M&A Mid-Market activity in the Eurozone continued to grow in the 3rd quarter by 10% in volume and 13% in value compared to the previous quarter to regain its level of the 3rd quarter in 2017. Over the first three quarters of the year, activity is stable compared to 2017.

This recovery is consistent with the M&A global market upward cycle: in Europe in value terms (not volume terms) activity has increased by 67% to \$941 billion over the first three quarters ⁽¹⁾, driven by large transactions (>\$5 billion).



The M&A market remains driven by European economic growth (despite the slowdown in 2018), continuing low interest rates (despite the prospects of a normalisation of monetary policy by the ECB), and the impact of digitalisation of the economy. Political uncertainty, commercial tensions with the US and new political instability in the heart of the Eurozone have not yet perturbed the growth cycle.



Source: Epsilon Research / CorpfinDeals

(1) Source: Refinitiv

Argos Wityu & Epsilon Research

Argos Wityu is an independent European private equity group with offices in Brussels, Frankfurt, Geneva, Luxembourg, Milan and Paris. Since its creation in 1989, Argos Wityu has carried out more than 75 transactions focusing on management buy-outs and buy-ins in small and medium companies.

Argos Wityu typically takes majority stakes ranging from 10m to 100m in companies with revenues of 20m to 600m.

With 1bn in funds 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 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 8,000+ 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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Methodology

The Argos Mid-Market Index measures the evolution of euro zone private Mid-Market company valuations. Carried out by Epsilon Research for Argos Wityu 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.

Since its launch in December 2006, the Argos Mid-Market Index has become a leading reference for private transactions.

Its preparation is based on a rigorous methodology and in-depth scrutiny of transactions making up the sample (the sample analysis is available on our website).

The sample of transactions is selected 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.

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