



# ARGOS

# INDEX

the mid market reference

## December 2017

The Mid-Market Eurozone Index

Prepared by

Argos Soditic & Epsilon Research



Capital for your future ■■■

# Table of contents

page 3

Methodology

page 4

Index trend

page 5

Buyout vs strategic

page 6

M&A activity in the Eurozone

page 7

Analysis of the sample

page 8

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:

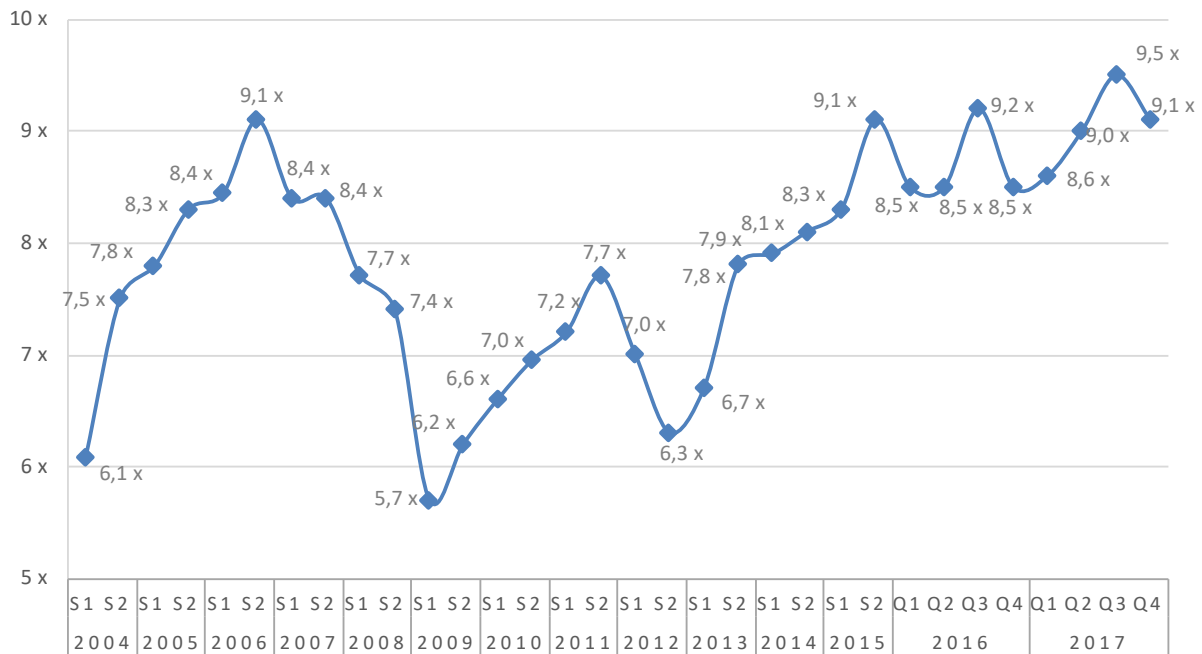
- professional partner databases: CorpfinDeals (transactions), CompanyQuery (company accounts), Infront Analytics (listed companies)
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

### Mild decline in the Index in the 4th quarter, activity Mid-Market M&A at a historically low level



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

The Argos Mid-Market Index fell by 4% to 9.1x EBITDA in the 4th quarter of 2017.

It is due to the drop in the multiples paid by strategic buyers (compared to an exceptionally high level in the 3rd quarter) to 9.1x EBITDA, particularly in the upper Mid-Market segment (transactions between €150 and €500 million).

The decrease is in line with the fall in listed Mid-Market company multiples (by 1% to 9.5x EBITDA<sup>(1)</sup>).

However, prices still remain elevated above 9x EBITDA, which is 20% higher than the average of the last ten years.

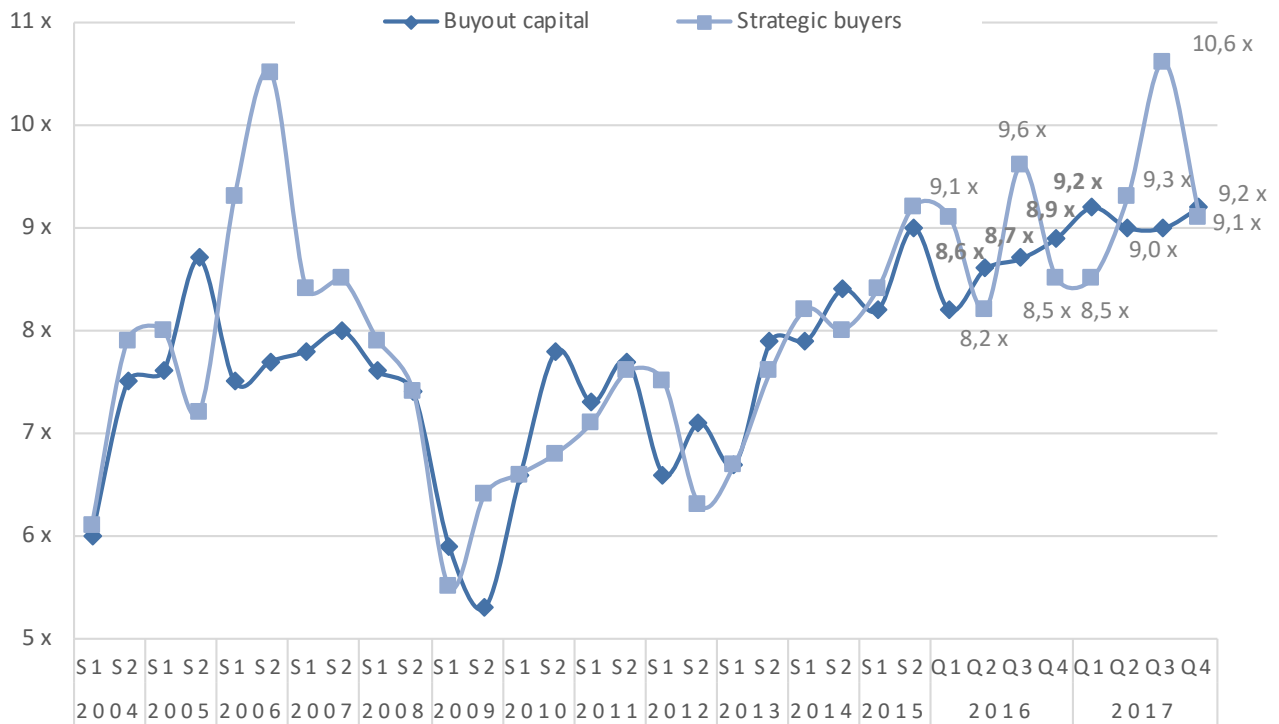
They are driven by the recovery in prices paid by private equity funds to 9.2x EBITDA, benefitting from an economic and financial environment which is still very favourable and a very strong investor interest in Mid-Market capital private equity in Continental Europe.

The drop in the Index comes with a 15% decline in Mid-Market activity over the period (both in volume and value), surprising fact which contrasts with a very strong activity of the previous quarter, and with the stability of the Mid-Market M&A of larger transactions.

<sup>(1)</sup> Source : Infront Analytics

# Buyout capital vs strategic buyers

## Drop in prices paid by industrial players and increase in prices paid by funds



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

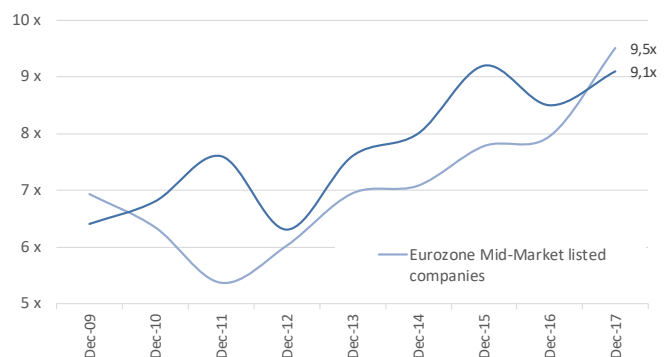
The decline in the Index in the 4th quarter 2017 is linked to the big drop in multiples paid by strategic buyers, to 9.1x EBITDA, which are back at the same level as the 2nd quarter, after the exceptional level in the 3rd quarter.

This fall is in line with the drop in Mid-Market quoted company multiples (from 9.6x to 9.5x EBITDA<sup>(1)</sup> – cf. graph opposite), in a stock market which was stable over the 4th quarter<sup>(2)</sup>.

At the same time, multiples paid by funds resumed their increase to 9.2x EBITDA. In an economic and financial environment which remains favourable (low rates and available debt), private equity funds are

benefitting from the strong interest of institutional investors in Mid-Market private equity investment in continental Europe.

Multiples EV/EBITDA : listed vs non listed



Source: Argos Mid Market Index / Epsilon Research / InFront Analytics

<sup>(1)</sup> EV/ LTM EBITDA, Mid-Market, Euro Zone listed companies (Source: Infront Analytics)

<sup>(2)</sup> 0.4% increase in the EURO STOXX® TMI Small Index over the 4th quarter

# M&A activity in the Eurozone

## Decline in M&A Mid-Market activity in the Eurozone

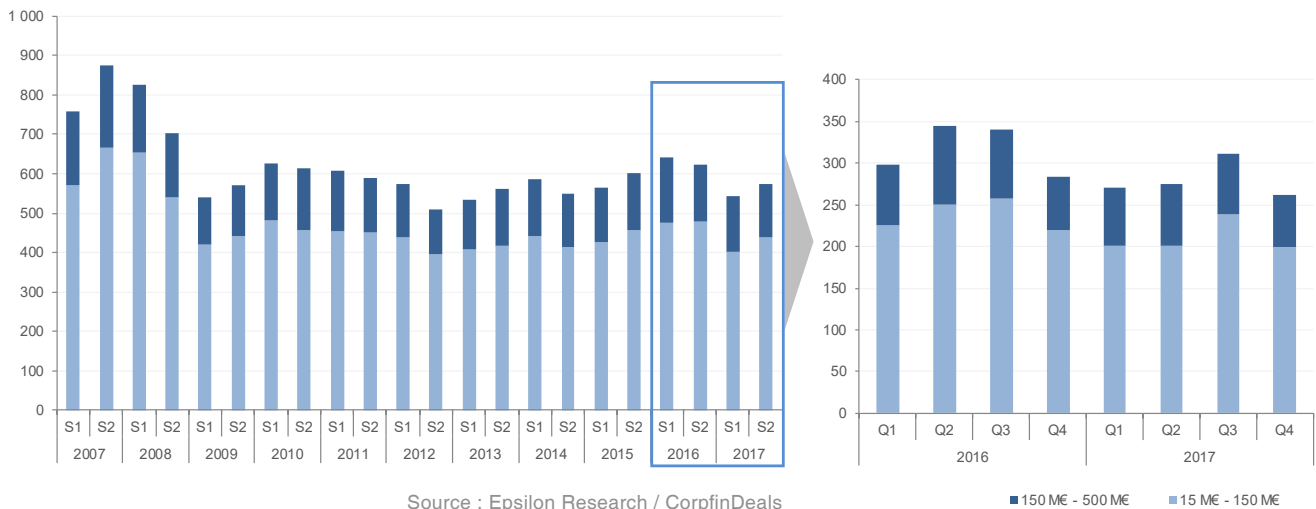
Mid-Market M&A activity in the Eurozone has fallen in the 4th quarter, by 15% vs 3rd quarter and by 8% vs 4th quarter 2016.

On the full year 2017, only 1.120 Mid-Market operations, down 12% vs 2016. This is in contrast with the dynamism of the

European large-cap market which is stable compared to 2016.

In value, the overall European market has seen strong growth<sup>(2)</sup> at +16%, compared to 2016, to \$862 billion.

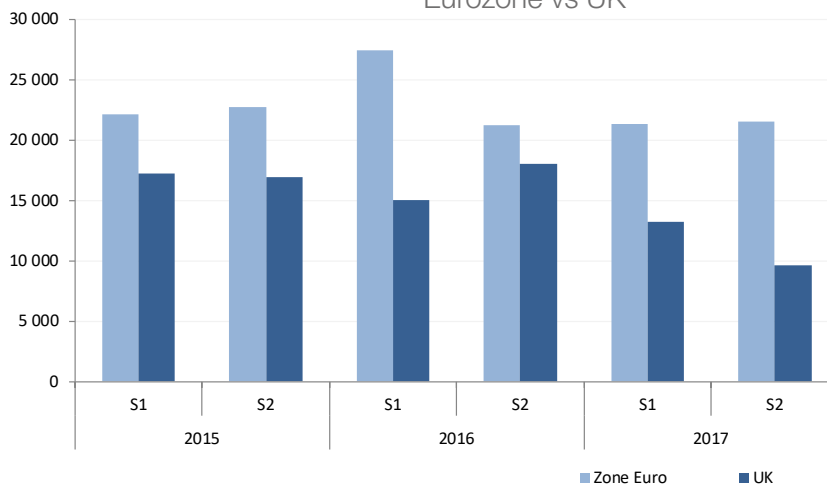
Mid-Market activity in the Eurozone in volume



The market is driven by the acceleration in economic growth in the Eurozone and by a trend towards European consolidation.

In Europe, only M&A activity in the UK continues to stagnate in volume and to decrease in value terms in the mid-market: -30% vs 2016.

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



<sup>(1)</sup> Source : Thomson Reuters

# 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	S2 2017
<b>Samples size</b>							
Deals retained for the index	98	100	92	104	85	103	89
Average Equity Value (€m)	124,0	109,2	134,6	128,5	149,7	147,9	140,5
Average N-1 sales (€m)	154,8	120,8	158,4	133,3	131,2	123,5	113,3
N-1 EBITDA margin	16,3%	15,3%	14,1%	12,0%	14,5%	14,2%	13,7%
N-1 EBIT margin	10,9%	9,5%	9,1%	8,7%	7,9%	10,6%	11,7%
<b>Breakdown by size (Equity Value)</b>							
[15-49] €m	36%	42%	25%	37%	27%	28%	25%
[50-99] €m	21%	29%	29%	15%	18%	14%	18%
[100-149] €m	12%	6%	17%	12%	13%	18%	22%
[150-500] €m	31%	23%	29%	37%	42%	40%	35%
<b>Breakdown by deal type</b>							
Acquisition	65%	78%	65%	69%	65%	60%	67%
LBO	35%	22%	35%	31%	35%	40%	33%
<b>Breakdown by country</b>							
France	30%	25%	34%	28%	35%	38%	28%
Germany	17%	15%	16%	20%	14%	11%	13%
Italy	23%	24%	26%	13%	15%	21%	19%
Benelux	14%	17%	4%	13%	12%	10%	11%
Spain-Portugal	8%	9%	7%	13%	11%	7%	14%
Other (euro zone)	8%	10%	13%	13%	13%	13%	15%
<b>Breakdown by sector</b>							
Energy, raw materials, chemicals	10%	4%	13%	16%	10%	8%	11%
Building, construction	9%	3%	8%	3%	5%	5%	7%
Industrial equipment	18%	21%	17%	13%	20%	18%	13%
Consumer products	2%	3%	2%	6%	2%	4%	5%
Agro-food	5%	10%	3%	8%	5%	6%	8%
Healthcare-Pharma	8%	12%	9%	8%	13%	8%	6%
Wholesale, retail	13%	6%	6%	7%	4%	10%	7%
Transport	8%	11%	11%	8%	9%	7%	3%
TMT	21%	20%	16%	18%	20%	20%	14%
Business and consumer services	6%	10%	15%	13%	12%	14%	26%

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, Luxembourg, 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 €960m 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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