



**ARGOS**

**INDEX**

the mid market reference

**June 2018**

The Mid-Market Eurozone Index

Prepared by  
Argos Wityu & Epsilon Research

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Argos Wityu & 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 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.

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:

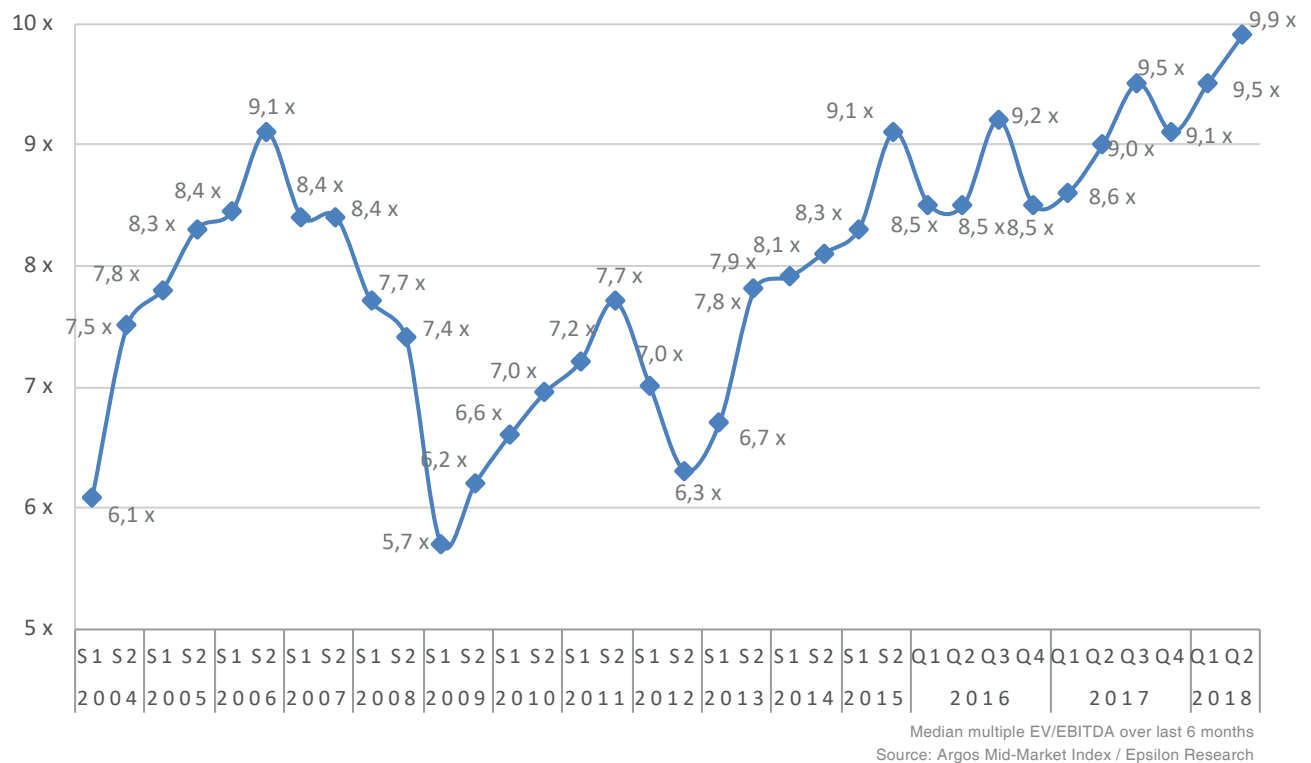
- professional partner databases: CorpfinDeals (transactions), CompanyQuery (company accounts), Infront Analytics (listed companies)
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

The Index reached a record level in the 2nd quarter at 9.9x EBITDA



The Argos Mid-Market Index continues to grow in the second quarter, with an increase of 4.2% to 9.9x EBITDA, its highest level since 2004.

The increase is driven by the Lower Mid-Market (+4.3%), the multiples of the Upper Mid-Market have been stable since the first quarter of 2017 at the very high level of more than 10x EBITDA.

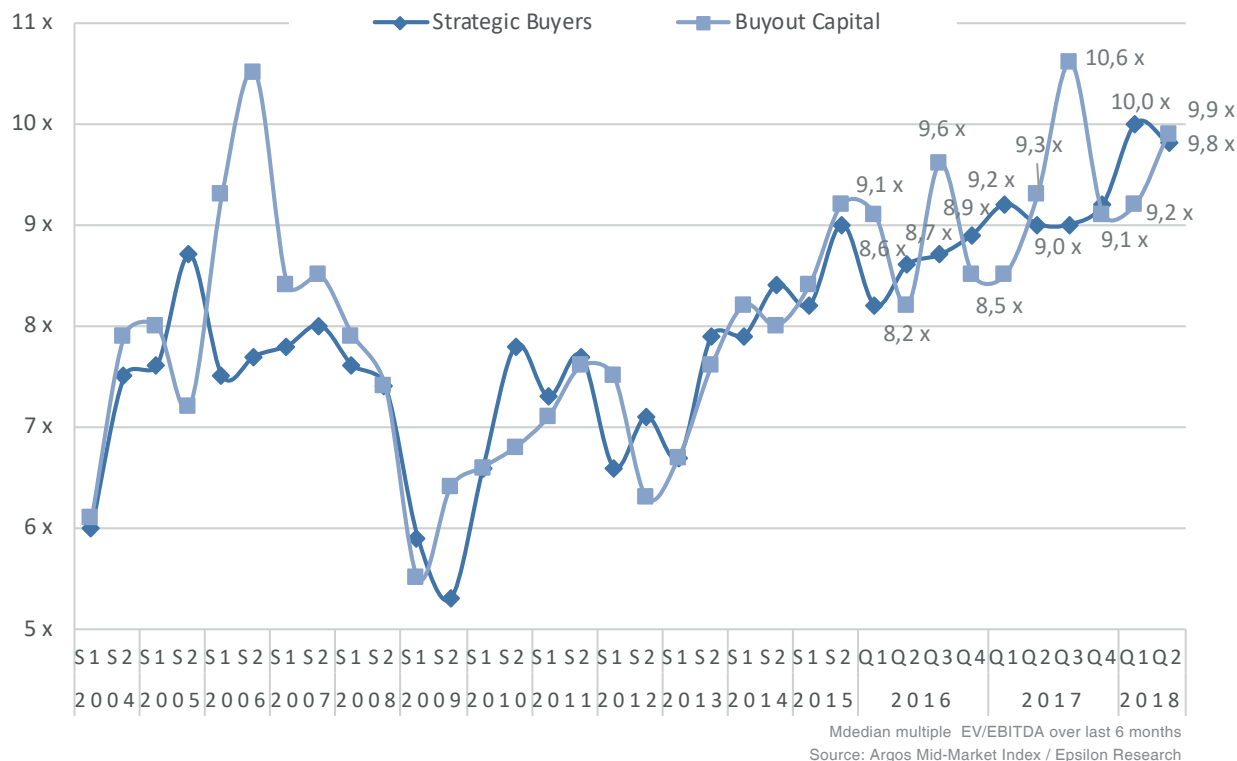
It is also linked to the recovery in the multiples paid by trade buyers (+7.6% to 9.9x EBITDA), which are higher than the Mid-Market quoted company multiples (9.5x EBITDA in the 2nd quarter <sup>(1)</sup>). Prices paid by private equity funds are unchanged at 9.8x EBITDA.

These historically high multiples are linked to a combination of an upbeat economic climate (economic growth in the Eurozone), financing conditions which remain exceptional (low interest rates despite the prospect of monetary tightening), the high levels of cash available in the large groups as well as private equity funds. In this context, the stronger competition for a limited number of quality targets (the number of Mid-Market transactions stagnated in the second quarter, in line with the first quarter) continues to drive the increasing prices.

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

# Buyout capital vs strategic buyers

Prices paid by private equity funds as well as trade buyers are at record levels

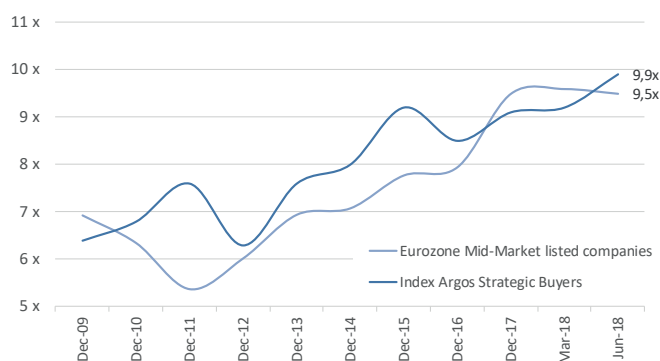


The increase in the index in the 2nd quarter is linked to the large increase in multiples paid by trade buyers to 9.9x EBITDA. This rise in prices is bolstered by large quoted companies, who represent 75% of strategic buyers in the 1st half, and by overseas buyers (over 50% of strategic buyers) – especially European buyers outside of the Eurozone (51% of overseas buyers). Prices paid for non-quoted companies have their own momentum, independent from the evolution of stock markets <sup>(1)</sup> with quoted Mid-Market company multiples dropping by 4% to 9.5x EBITDA <sup>(2)</sup>.

Prices paid by funds are slightly down (by 2%) but remain at a historically high level,

at 9.8x EBITDA in the second quarter. They continue to be driven by the funds raised and available to invest (dry powder) in 2018, the increasing use of debt and strong competition for quality assets.

Multiples EV/EBITDA : listed vs non listed



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

<sup>(1)</sup> L'EURO STOXX® TMI Small fell by 1% in the quarter

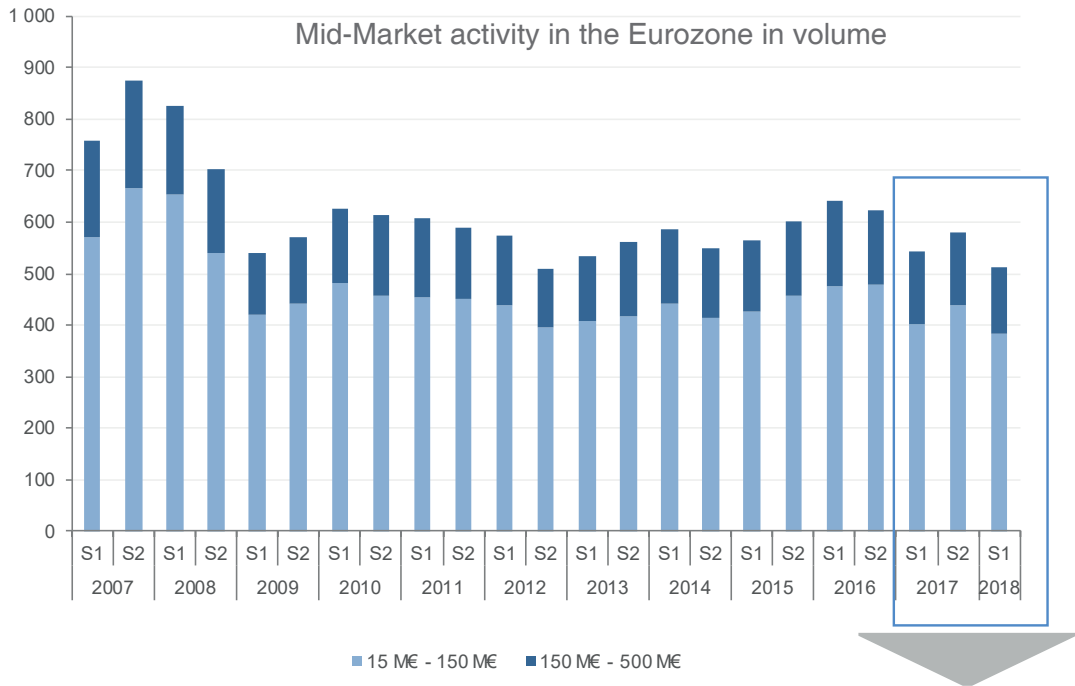
<sup>(2)</sup> EV/ LTM EBITDA, Mid Market, Euro Zone listed companies (Source : Infront Analytics)

# M&A activity in the Eurozone

The decline in M&A activity is confirmed over the course of the first half

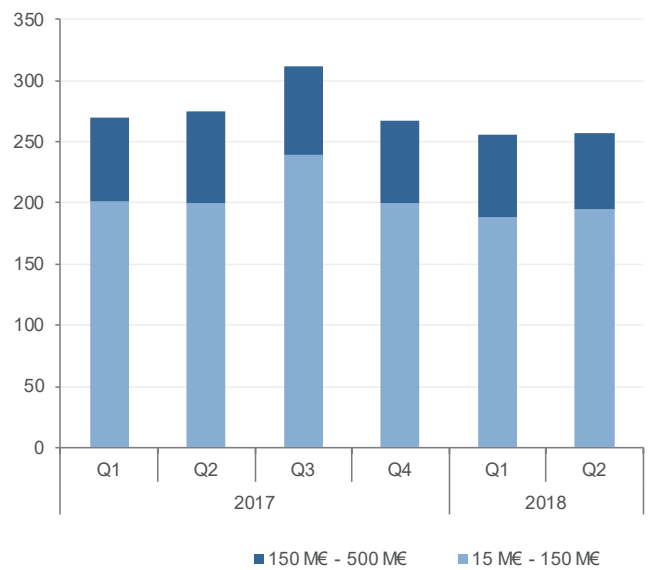
M&A Mid-Market activity in the Eurozone in the 2nd quarter is in line with that of the 1st quarter (in volume as in value) and shows a fall over the first half of 10% in volume and 25% in value compared to the previous semester. Since 2009, activity is between 500 and

600 transactions per semester, for a value (declared) between €15 and €25 billion per semester. This relative stagnation of the Mid-Market contrasts with the increase in global activity (in value terms) for several years, driven by transactions larger than \$5 billion.



The M&A market continues to be driven by macro-economic factors which geopolitical issues (the commercial tensions with the United States) have not managed to disturb for the moment.

In this favourable M&A context, the Mid-Market activity seems to be particularly influenced by the historically high price levels paid for non-quoted companies, even compared to quoted companies.



Source : Epsilon Research / CorpinDeals

# 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	S2 2017	S1 2018
<b>Samples size</b>							
Deals retained for the index	98	100	92	104	85	89	92
Average Equity Value (€m)	124,0	109,2	134,6	128,5	149,7	140,5	142,0
Average N-1 sales (€m)	154,8	120,8	158,4	133,3	131,2	113,3	130,0
N-1 EBITDA margin	16,3%	15,3%	14,1%	12,0%	14,5%	13,7%	13,3%
N-1 EBIT margin	10,9%	9,5%	9,1%	8,7%	7,9%	11,7%	8,0%
<b>Breakdown by size (Equity Value)</b>							
[15-49] €m	36%	42%	25%	37%	27,0%	25%	28%
[50-99] €m	21%	29%	29%	15%	18,0%	18%	21%
[100-149] €m	12%	6%	17%	12%	13,0%	22%	16%
[150-500] €m	31%	23%	29%	37%	42,0%	35%	35%
<b>Breakdown by deal type</b>							
Acquisition	65%	78%	65%	69%	65%	67%	74%
LBO	35%	22%	35%	31%	35%	33%	26%
<b>Breakdown by country</b>							
France	30%	25%	34%	28%	35,0%	28%	32,0%
Germany	17%	15%	16%	20%	14,0%	13%	15,0%
Italy	23%	24%	26%	13%	15,0%	19%	14,0%
Benelux	14%	17%	4%	13%	12,0%	11%	13,0%
Spain-Portugal	8%	9%	7%	13%	11,0%	14%	4,0%
Other (euro zone)	8%	10%	13%	13%	13,0%	15%	22,0%
<b>Breakdown by sector</b>							
Energy, raw materials, chemicals	10%	4%	13%	16%	10%	11%	11%
Building, construction	9%	3%	8%	3%	5%	7%	3%
Industrial equipment	18%	21%	17%	13%	20%	13%	19%
Consumer products	2%	3%	2%	6%	2%	5%	3%
Agro-food	5%	10%	3%	8%	5%	8%	9%
Healthcare-Pharma	8%	12%	9%	8%	13%	6%	4%
Wholesale, retail	13%	6%	6%	7%	4%	7%	9%
Transport	8%	11%	11%	8%	9%	3%	11%
TMT	21%	20%	16%	18%	20%	14%	21%
Business and consumer services	6%	10%	15%	13%	12%	26%	10%

Source : Argos Mid-Market Index / Epsilon Research  
 Valeur d'Equity (Eq.) = prix payé pour 100% des actions / Valeur d'Entreprise (EV) = Eq. + dette financière nette

# Argos Wityu



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 €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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