



**ARGOS**

**INDEX**

the mid market reference

**March 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:

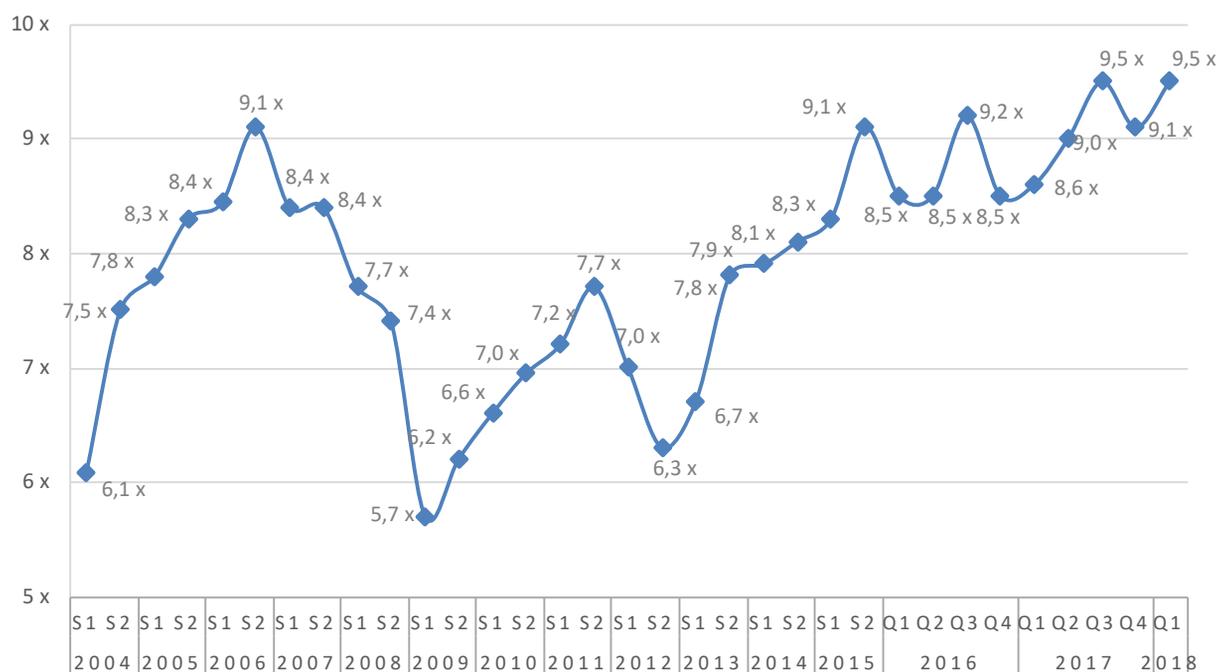
- professional partner databases: CorpfinDeals (transactions), CompanyQuery (company accounts), Infront Analytics (listed companies)
- publicly available information: company accounts, press releases, annual reports (buyers / sellers), press articles, etc.

- 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

Mid-Market multiples hit historically high levels in the first quarter 2018



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

The Argos Mid-Market index rose by 4.4% to 9.5x EBITDA in the first quarter of 2018.

The increase in multiples is similar regardless of size of the transaction. It is also linked this quarter to the high prices paid by private equity firms to 10.0x EBITDA (+8.7%). Prices paid by strategic buyers are slightly up at 9.2x EBITDA, in line with quoted mid-market companies (+1.1% to 9.6x EBITDA <sup>(1)</sup>).

This continued increase in multiples is driven by a favourable macro-economic and financial environment and a highly competitive field.

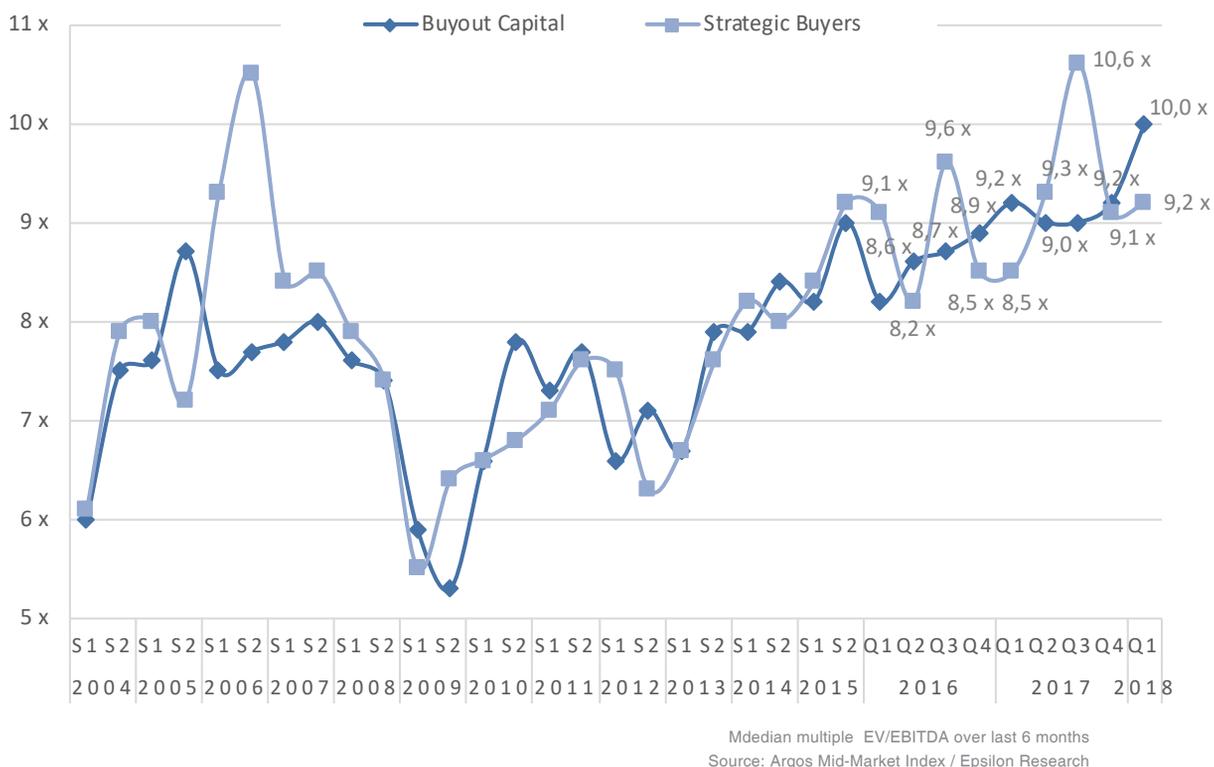
On the other hand, the M&A Mid-Market activity in the Eurozone has seen a sharp decline of 16% in volumes (28% in value) compared to the previous quarter and by -17% in volume (and -23% in value) compared to the first quarter of 2017.

The only exception has been large quoted and foreign companies which continue to be very active in terms of acquisitions.

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

## Buyout capital vs strategic buyers

Continued increases in the prices paid by private equity funds, which reach a historical high.



The increase in the index in the 1st quarter of 2018 is very much linked to that of the multiples paid by PE backed funds, to 10.0x EBITDA.

outside of the Eurozone), at the expense of domestic non-quoted companies.

Prices are supported by the high levels of dry powder still available and the record level of private equity funds raised in 2017 <sup>(1)</sup>, by high utilisation of debt and by strong competition for acquisition opportunities.

Prices paid by strategic buyers have increased slightly to 9.2x EBITDA, in line with the evolution of stock markets: quoted mid-market multiples have increased by 1.1% to 9.6x EBITDA <sup>(2)</sup>. The impact of the activity of foreign and large quoted companies was predominant in the first quarter: they represented a record share of strategic buyers (75% quoted; 60% are overseas

### Multiples EV/EBITDA : listed vs non listed



<sup>(1)</sup> \$453bn of funds raised globally for private equity from funds raised 2015-17 according to 2018 Global Private Equity & VC Report

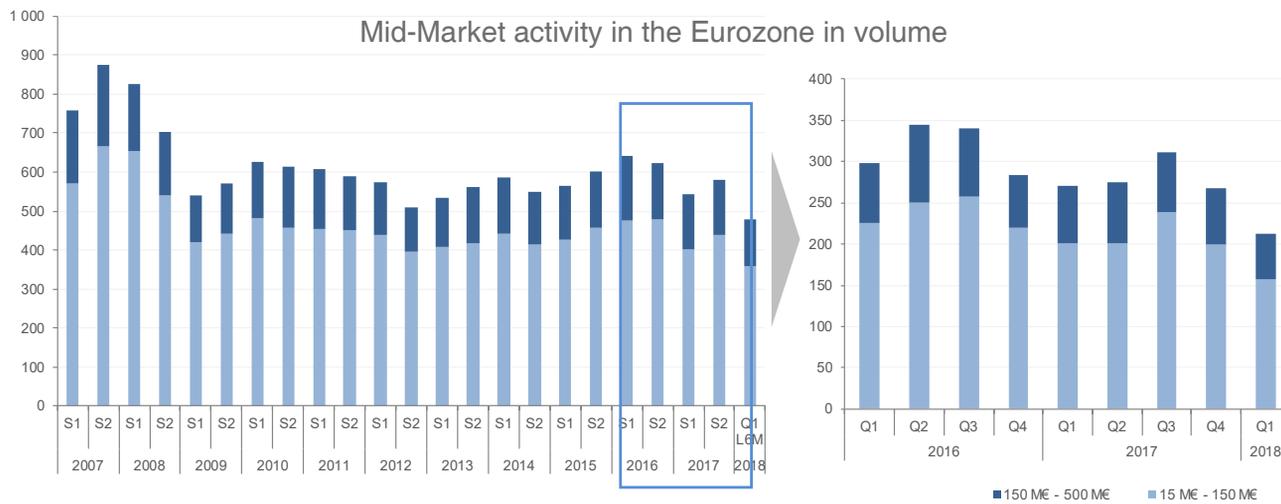
<sup>(2)</sup> EV/ LTM EBITDA, Mid Market, Euro Zone listed companies (Source : Infront Analytics)

# M&A activity in the Eurozone

## Another fall in M&A activity in the Eurozone in the first quarter

M&A activity in the Eurozone Mid-Market is once again down in the first quarter, by 16% in volume, 28% in value compared the the fourth quarter of 2017 and by -17% in volume (and -23% in value) compared to the first quarter of 2017.

This weakness in the mid-market segment contrasts with the record increase in the value of M&A activity (1) across the world (+60%) and more particularly in Europe (+143%), driven by transactions larger than \$10 billion.



Source : Epsilon Research / CorpfInDeals

In this seemingly favourable macro-economic environment, the decline in mid-market activity, appears to be linked on one side to the scarcity of quality acquisition opportunities and on the other hand historically high prices levels for non-quoted companies, which discourages certain buyers.

The increase in non-quoted company valuations is the biggest challenge in the coming years.



Source : Epsilon Research / CorpfInDeals

■ Zone Euro ■ UK

(1) Source : Thomson Reuters in FT 29.03.2018

# 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	Q12018
<b>Samples size</b>							
Deals retained for the index	98	100	92	104	85	89	98
Average Equity Value (lm)	124,0	109,2	134,6	128,5	149,7	140,5	134,4
Average N-1 sales (lm)	154,8	120,8	158,4	133,3	131,2	113,3	102,0
N-1 EBITDA margin	16,3%	15,3%	14,1%	12,0%	14,5%	13,7%	13,5%
N-1 EBIT margin	10,9%	9,5%	9,1%	8,7%	7,9%	11,7%	8,4%
<b>Breakdown by size (Equity Value)</b>							
[15-49] lm	36%	42%	25%	37%	27%	25%	32%
[50-99] lm	21%	29%	29%	15%	18%	18%	21%
[100-149] lm	12%	6%	17%	12%	13%	22%	12%
[150-500] lm	31%	23%	29%	37%	42%	35%	35%
<b>Breakdown by deal type</b>							
Acquisition	65%	78%	65%	69%	65%	67%	70%
LBO	35%	22%	35%	31%	35%	33%	30%
<b>Breakdown by country</b>							
France	30%	25%	34%	28%	35%	28%	29%
Germany	17%	15%	16%	20%	14%	13%	15%
Italy	23%	24%	26%	13%	15%	19%	19%
Benelux	14%	17%	4%	13%	12%	11%	9%
Spain-Portugal	8%	9%	7%	13%	11%	14%	7%
Other (euro zone)	8%	10%	13%	13%	13%	15%	21%
<b>Breakdown by sector</b>							
Energy, raw materials, chemicals	10%	4%	13%	16%	10%	11%	11%
Building, construction	9%	3%	8%	3%	5%	7%	5%
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%	6%
Healthcare-Pharma	8%	12%	9%	8%	13%	6%	7%
Wholesale, retail	13%	6%	6%	7%	4%	7%	6%
Transport	8%	11%	11%	8%	9%	3%	9%
TMT	21%	20%	16%	18%	20%	14%	15%
Business and consumer services	6%	10%	15%	13%	12%	26%	19%

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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