

Argos Index[®]

The mid-market reference

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The Mid-market Argos Index[®] tracks the valuation of unlisted eurozone SMEs. The index was launched at the end of 2006 by Argos Wityu and Epsilon Research, an online platform for managing M&A transactions on listed companies. Published quarterly, the index catalogs mid-market acquisitions that have taken place during the previous three months.

4TH quarter 2022

9.9x



“ The Argos Index® was born out of the desire to create a database for the unlisted market that would be both methodologically robust and rich in high-quality information. Robustness is the index’s salient characteristic. ”

**Louis Godron,
Managing Partner, France**

“ When the CEO of a company wonders if now is the right time to sell, the Argos Index® supplies essential business cycle information and helps him or her make a decision. The Argos Index® derives its legitimacy from its longevity and independence. ”

**Frank Hermann,
Managing Partner, DACH**

“ If the Argos Index® is now a benchmark in Europe, it’s because we use information from our EMAT (Epsilon multiple Analysis Tool) database that has been proven to be reliable. The index has always been based on this methodology. We work meticulously, transaction by transaction, examining documents, analyzing annual reports, reconstituting transactions and building hypotheses. ”

**Grégoire Buisson,
Founder & CEO, Epsilon Research**

Principal conclusions

- Mid-market M&A activity fell in value, driven by the upper mid-market, but is stable in volume due to better resilience of the lower mid-market.
- In this context of drop in transaction turnover, a limited decrease of the Argos Index®, now below 10.0x EBITDA.
- Prices paid by private equity funds and strategic buyers have both moderately slipped.
- Increased share of transactions at multiples < 7x EBITDA, most of which are for smaller deals.

01 | Limited decrease of the Argos Index®, now below 10.0x EBITDA

The Argos Index® has started to decline in Q4 at 9.9x EBITDA: it is now below 10x for the first time since Q2 2020. Multiples paid by both private equity funds and strategic buyers have shown a limited erosion.

This looks surprising in a quickly deteriorating macroeconomic environment: as inflation spiralled out of control due to lockdowns and the Russia-Ukraine war, central banks have increased interest rates, which resulted in a correction in public markets - that however bounced back in Q4⁽¹⁾.

The expected fall of multiples has yet to materialize. As the M&A market cycle reverses, the gap between sellers' and buyers' price expectations takes time to narrow. But the process seems to have started, as the most recent deals of the Index sample have lower multiples.

This apparent stability also conceals the growing divergence, at a record level of 4.0x EBITDA, between the upper mid-market (now at 12.6x EBITDA) and the lower mid-market where multiples continue to decrease at 8.6x EBITDA. On the upper end of the market, dealmaking was concentrated on a much smaller number of quality assets with strong pricing power. As usual during periods of crisis, the market is getting more polarized, as shown is the high standard deviation of the Q4 Index.

⁽¹⁾The EURO STOXX® TMI Small was up 11.2% in Q4, back to its 30.06.2022 level.

The M&A mid-market activity fell in value by 43% (Q4 vs. Q3), led by the upper mid-market, and in line with the global M&A market trend. But the number of transactions remained remarkably stable in Q4 (vs. Q3) as well as for the full 2022 (vs. 2021).

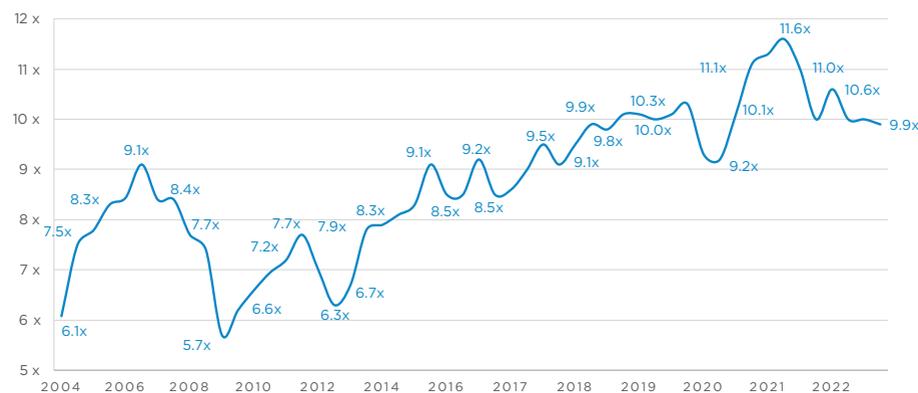
Where the resilience of businesses was the strongest, forward-looking anticipations of sellers and buyers have been aligned enough to strike a price, which the index shows as being in line with the previous quarters' practice.

Reversely, the drop in M&A values testifies that in many other cases, the buyers curbed down their anticipations for the businesses, while the vendors did not capitulate, and instead stuck to their positive views on the prospects of their companies.

The next quarters will be captivating in the discovery of which of the two views was right, in a context of strikingly high interest rates, inflation and geopolitical worries, ... but in a landscape where unemployment remains low, and many businesses continue to thrive.

Argos index® mid-market

Median EV/EBITDA multiple on a six-month rolling basis



Source : Argos Index® mid-market / Epsilon Research

02 | Prices paid by private equity funds and strategic buyers have started to drop

As reflected by the Argos Index®, both financial and strategic buyers multiples have slightly declined in Q4.

Multiples paid by investment funds are down 2% at 10.5x EBITDA in Q4 while the number of private equity deals is down 12% this quarter, which reflects the more difficult LBO financing conditions (interest rates hikes and banks' increased selectivity). Fundraising has dropped to its lowest level since 2014, but private equity funds continue to benefit from record levels of money available for investment and are still active on quality assets, at high prices.

Multiples paid by strategic buyers are also slightly down at 9.8x EBITDA. With a remarkably stable level since Q4 2021 they are apparently insulated from equity market volatility. Large corporates take advantage of the market downturn to find attractive growth opportunities and continue to transform their business models on the face of structural changes (digitalisation, ESG, changes in consumer behaviour).

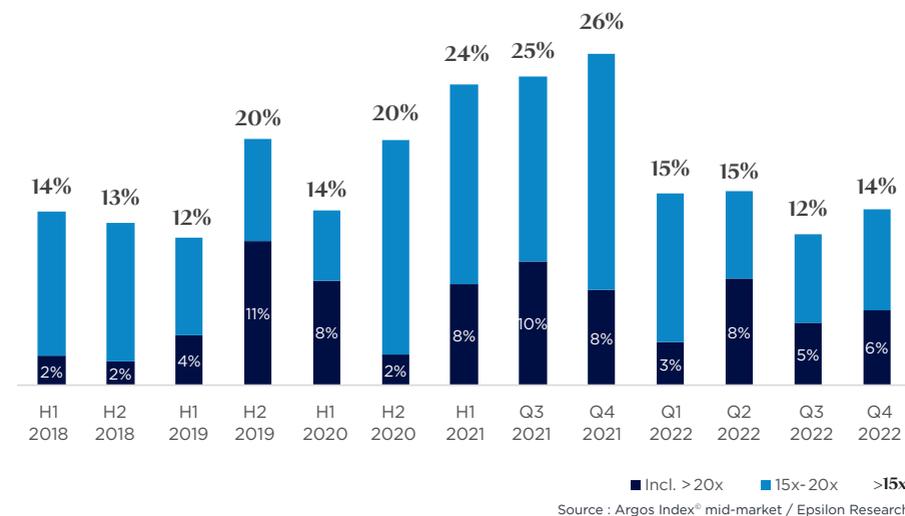
Enterprise value / historical EBITDA



03 | Transactions at multiples > 15x back to pre-Covid levels

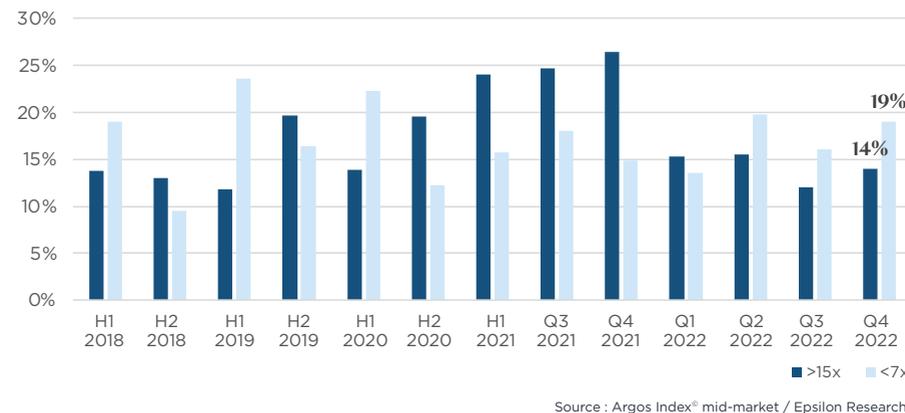
Transactions at multiples > 15x EBITDA in Q4 2022 are in line with previous 2022 quarters: they account for 14% of analysed transactions, at their pre-Covid level. All these deals were made in the Tech/Pharma sectors.

Percentage of transactions at multiples >15x EBITDA Argos Index® sample



The share of transactions at multiples < 7x EBITDA accounts for 19% of analysed transactions, up from previous 2022 quarters.

Percentage of transactions at multiples <7x and >15x EBITDA Argos Index® sample



04 | Mid-market M&A activity fall in value, driven by the upper market, but is stable in volume

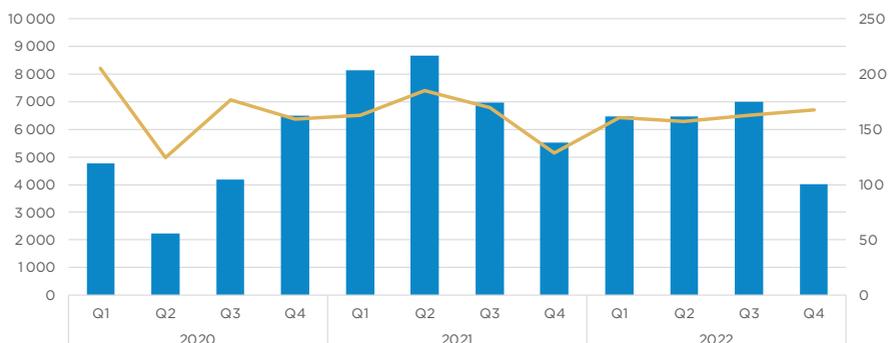
Euro zone M&A activity fell in value by 43% in Q4 (vs. Q3), largely due to the 57% drop of the upper mid-market (deals between €150m and €500m). However, the number of transactions remained stable (+3% vs. Q3) pulled by smaller deals, which proved once again a more resilient market.

For the full 2022, the number of deals also stayed remarkably stable compared to 2021. The 2022 mid-market activity continued to show more resilience than the global M&A market: it decreased by 18% in value vs. 39% for the full European M&A market⁽¹⁾ - although it is still at high levels by historical standards.

The slowdown is the result of interest rate hike⁽²⁾, in the wake of spiralling inflation and the war in Ukraine, hitting confidence in global markets and increasing the cost of financing. But the mid-market activity also reflected the resilience of euro-zone economies, which have outperformed expectations, as reflected in lower energy prices, GDP growth⁽³⁾ or PMI⁽⁴⁾.

Eurozone mid-market activity (€15-500m) in volume and value

- Value of disclosed mid-market transactions (€15-500m)
- Estimated number of mid-market transactions (€15-500m)



Source : Argos Index® mid-market / Epsilon Research

¹ In 2022 the European M&A market decreased by 39% in value to \$850.7bn, a 3-year low (source: Refinitiv)

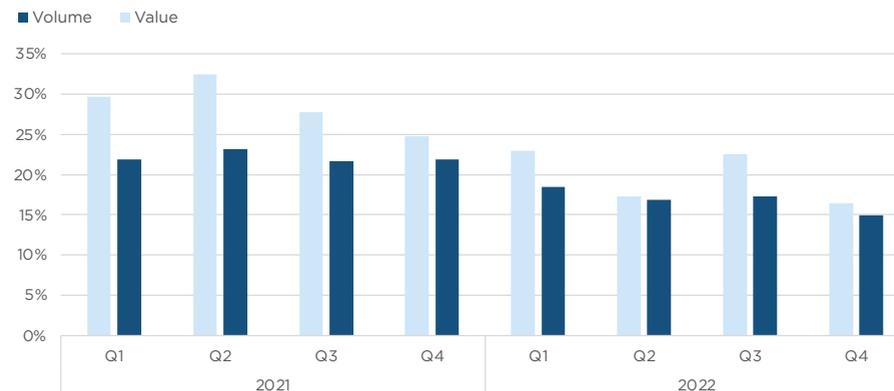
² The ECB has raised key interest rates by 250 basis points since summer.

³ The region GDP has grown by 4% and 2.1% year-on-year in Q2 and Q3 2022, respectively, beating most forecasts. Forecast growth is now 3.4% for 2022, 0.5% for 2023.

⁴ The S&P Global Eurozone Composite PMI was revised to 49.3 in Dec. 2022, up from 48.8.

Private equity funds were less active than corporate buyers in Q4: their share⁽¹⁾ in mid-market M&A decreased to 15% vs. 20%+ in 2021.

Share of LBO in Eurozone Mid-market M&A



Source : Epsilon Research / MarketIQ

¹ Does not include build-ups

All on the Argos Index®



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The index serves as a benchmark for all participants in the unlisted market. It is based on a rigorous methodology and a detailed, individual analysis of each transaction, including the structure of the transaction, the company's business activity (restated financial information) and transaction multiples. The index is calculated using data from Epsilon Research's EMAT (Epsilon Multiple Analysis Tool) database, which is based on analyses of more than 10 000 M&A transactions.

Every quarter, based on reliable financial information, Epsilon Research analyzes in detail around 25% of the transactions that meet the criteria for inclusion in the index: acquisition of a majority stake in a eurozone company whose book value is between €15 and €500 million.



One firm, two strategies. Argos Wityu is an independent European private-equity group that supports the growth of mid-sized business and back their management teams.

With more than €1.4bn assets under management, over 30 years of experience, and more than 90 businesses assisted, Argos Wityu operates from offices in Brussels, Frankfurt, Geneva, Luxembourg, Milan, and Paris. The group seeks to acquire majority stakes and invests between €10m and €100m in each investment of its two strategies:

- The Mid-Market fund helps companies implement ownership transitions to accelerate growth.
- The Climate Action fund aims at shaping European sustainable leaders by making their 'grey-to-green' transition.



Epsilon Research developed the first online platform for the management of non-quoted M&A transactions, aimed at M&A professionals. The Epsilon platform includes data, analysis reports, software and services essential for private company valuation / deal management: 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; indices and studies published regularly by Epsilon, including the Argos Index; cloud-based software for managing M&A contacts and projects; valuation of comparables, private equity fund investments.

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