

Argos Index[®]

The mid-market reference

Argos Index[®]

The mid-market reference

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.

1ST quarter 2022

10.6x



“ 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

- The Argos Index® climbed to 10.6x EBITDA
- The multiples paid by investment funds pulled the index up
- Multiples were more homogeneous
- European mid-market M&A activity increased

01 | The Argos Index® climbed to 10.6x EBITDA

Following the second-half 2021 correction, the Argos Index® advanced in the first quarter of 2022 to 10.6x EBITDA. It was driven by the high end of the market – lower mid-market multiples remained stable – and by the prices investment funds paid, which rose to 10.8x EBITDA.

First-quarter 2022 multiples were more homogeneous than they have been over the past two years. The standard deviation declined significantly, as did the proportion of multiples in excess of 15x. With the Covid-19 epidemic declining in Europe, the index's component sectors have readjusted. M&A activity and multiples have increased in manufacturing-services, while declining in relative terms in tech-healthcare. As a result, the gap in median multiples between these sectors fell this quarter to less than 1x EBITDA against more than 4x EBITDA during the fourth quarter of 2021.

The rise in multiples was driven by the strong recovery in economic growth in 2021 as well as by financial terms (negative interest rates) that continued to be favourable. Recovery in mid-market M&A activity in the first quarter – essentially transactions of less than €150m – helped increase the Argos Index®, following the decline in the previous quarter.

The M&A upcycle of the past few years seems to be turning around, however. Overall M&A activity fell by 23% in the first quarter, and deteriorating geopolitical, economic and financial conditions were the main culprits. With Russia's invasion of Ukraine on 24 February, the uptick in inflation was confirmed, driven by galloping energy and raw material prices. Central banks are preparing to tighten monetary policy, and the latest Covid wave in China has further disorganised the value chain.

While the war in Ukraine had not yet had an impact on SME valuations in the first quarter, it did hit M&A activity in March, which declined 25% in volume and 37% in value compared with January-February 2022.

Argos index® mid-market Median EV/EBITDA multiple on a six-month rolling basis



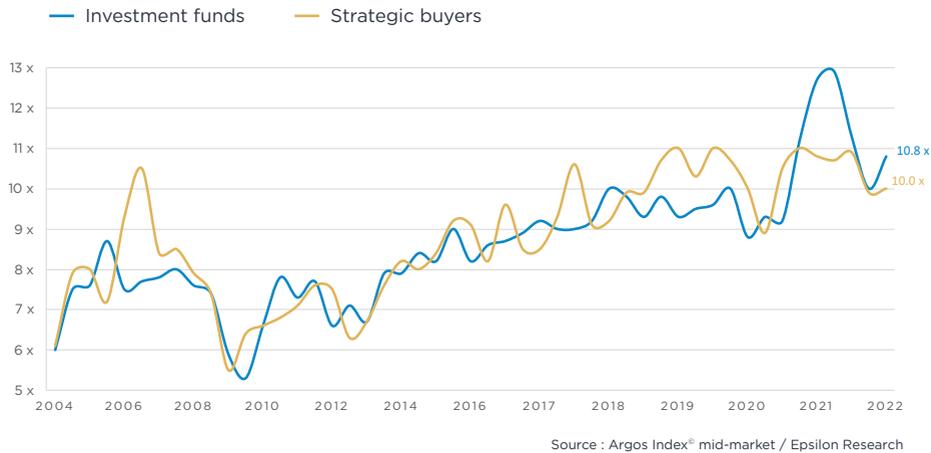
Source : Argos Index® mid-market / Epsilon Research

02 | The multiples paid by investment funds pulled the index up

Multiples paid by investment funds increased to 10.8x EBITDA, after declining sharply in the second half of 2021. They continued to be driven by record-high amounts of capital looking for an investment outlet, in a financial context that continued to be supportive despite higher inflation. Nevertheless, risks to LBO financing have increased, as underscored in an ECB letter to the executives of major banks warning them about increased leverage⁽¹⁾.

Multiples paid by strategic buyers advanced slightly to 10.0x EBITDA. This high level is in line with the behaviour of equity markets, which held up well during the first quarter⁽²⁾. Investors remained optimistic. Large companies continued to transform their business models and their approach to strategic acquisitions. As such, the risk premium on European equities⁽³⁾ declined sharply from its peak in the first quarter of 2020, at the start of the Covid crisis, to 5%, its lowest level in ten years.

Enterprise value / historical EBITDA



¹ Letter from Andrea Enria, Chair of the ECB Supervisory Board, dated 28/03/2022, highlighting leverage of >6x EBITDA for half of 2019-20 transactions and more than 60% of H1 2021 transactions.

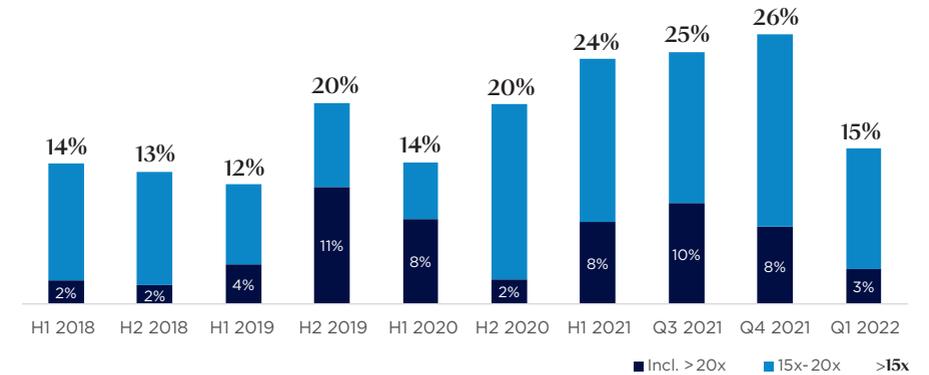
² L'EURO STOXX® TMI Small was down 6.5% in Q1 2022 compared with Q4 2021, but up 2.9% compared with Q1 2021.

³ Source: Goldman Sachs Global Investment Research ERP

03 | Multiples were more homogeneous

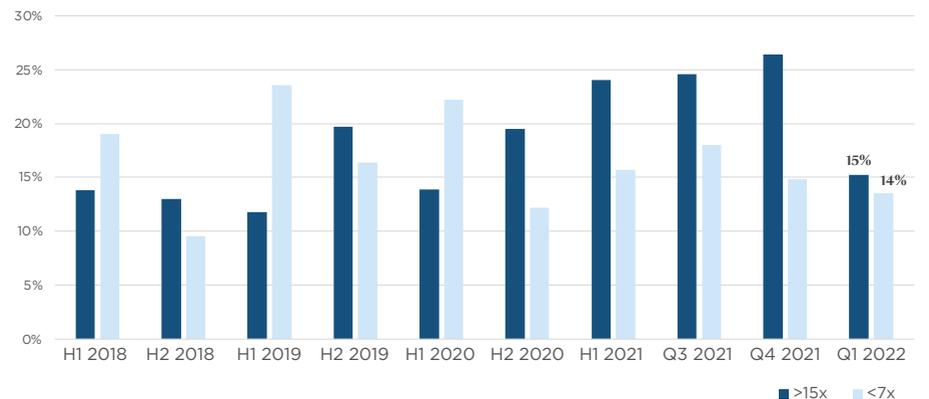
The share of transactions with multiples higher than 15x EBITDA contracted sharply in the first quarter of 2022 to 15% of analysed transactions, its pre-Covid level.

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



Consequently, the dispersion of multiples within the sample declined during the quarter. In addition, the share of transactions at multiples of less than 7x EBITDA represented 14% of analysed transactions, down slightly compared with previous quarters.

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



04 | European mid-market M&A activity increased in the first quarter of 2022

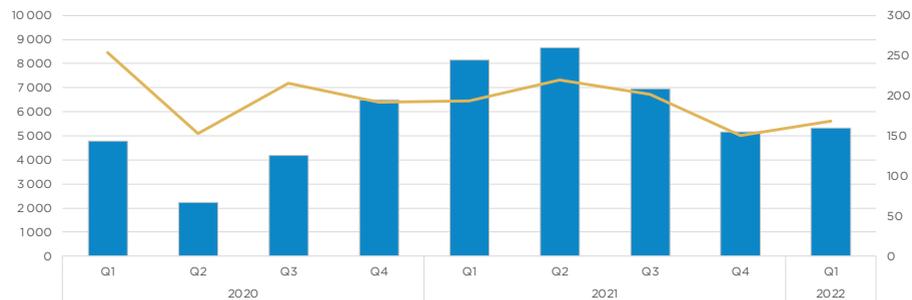
First-quarter 2022 M&A activity increased by 12% in volume and 3% in value, following the Q4 2021 decline.

M&A activity was driven by the lower mid-market (it was stable on deals > €150m), the sharp recovery in growth following the Covid crisis, a supportive financial context (interest rates were maintained very low) and active growth strategies on the part of both large companies and investment funds.

This increase is in contrast to the slowdown in overall M&A activity, which declined 23% in Q1 to \$1tn, although it remained above that of Q1 2019 and Q1 2020. After an exceptional 2021, the M&A upcycle is starting to turn around, because the economic and financial outlook is clouding up and because of the war in Ukraine.

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

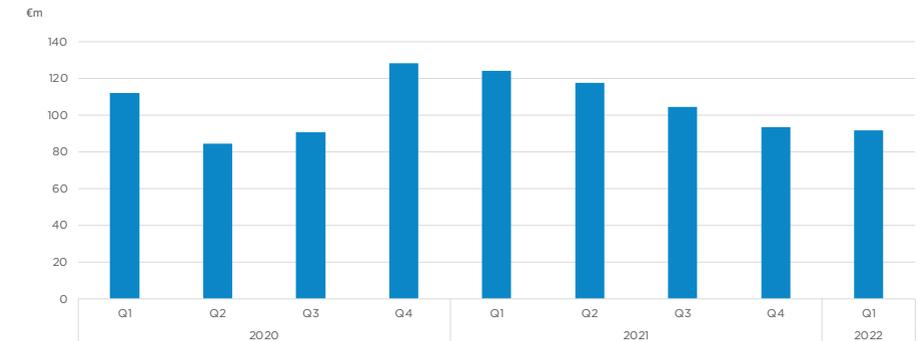
- Value of disclosed mid-market transactions (€15-500m)
- Estimated number of mid-market transactions (€15-500m)



Source : Argos Index® mid-market / Epsilon Research

With the strengthening recovery in M&A transactions in the manufacturing and services sectors, the average size of mid-market transactions pursued the decline that started in 2021.

Average disclosed transaction size – M&A Europe Mid-market



Source : Epsilon Research / MarketIQ

¹ Source : Refinitiv in the FT, 01.04.2022

All on the Argos Index®



The Argos Index® Mid-market 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.

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 8,000 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.



Argos Wityu is an independent European investment fund that supports companies in the transfer of business ownership. It has assisted more than 80 entrepreneurs, focusing its investment strategy on complex transactions with emphasis on transformation, growth, and close collaboration with management teams. Argos Wityu seeks to acquire majority interests and invest between €10m and €100m with each transaction. With €1bn under management and 30 years of experience, Argos Wityu operates from offices in Brussels, Frankfurt, Geneva, Luxembourg, Milan and Paris.



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.

Contacts

Louis Godron
François Becque
Argos Wityu
lgo@argos.fund
fbe@argos.fund
+ 33 1 53 67 20 50

Coralie Cornet
Head of Communications
ccc@argos.fund
+ 33 1 53 67 20 63

Grégoire Buisson
Epsilon Research
gregoire.buisson@epsilon-research.com
+33 1 47 70 30 24

France
112, av. de Wagram
75017 Paris
+33 1 53 67 20 50

Italy
Piazza Diaz 5
20122 Milan
+39 02 00 660 700

Germany
Neue Mainzer Str. 52-58
60311 Frankfurt am Main
+49 69 5977217 30

Switzerland
114 rue du Rhône
1204 Genève
+41 22 849 66 33

Belgium
Av. Louise - Bt. 2
1050 Bruxelles
+32 2 554 12 40

Luxembourg
1-B rue Jean Piret
2350 Luxembourg
+352 2484 01 60

argos.wityu.fund