

## Argos Index – the mid market reference

In a context of lower M&A activity valuations remain at a level about 20% higher than the average of the last ten years. This is especially true for financial buyers, who continue to value their acquisitions above 9x EBITDA, while strategic buyers were more conservative than in the two previous quarters. Interesting as well is the increase in activity in the Business and Consumer Services industry at its highest point for the last three years and accounting for more than 25% of the transactions of the sample.

### 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.

### Index trend

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

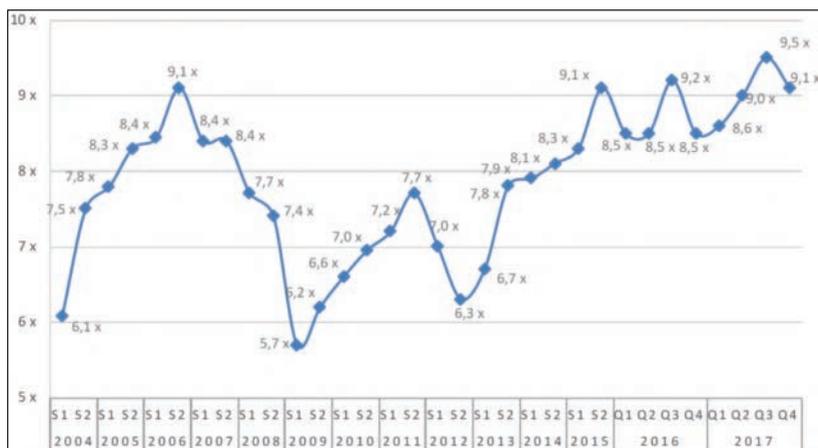


Figure 1: Median multiple EV/EBITDA over last 6 months  
Source: Argos Mid-Market Index / Epsilon Research

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 € 150m and € 500m). The decrease is in line with the fall in listed Mid-Market company multiples (by 1% to 9.5x EBITDA). However, prices still remain 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.

## Buyout capital vs strategic buyers

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



Figure 2: Median 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 in 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.

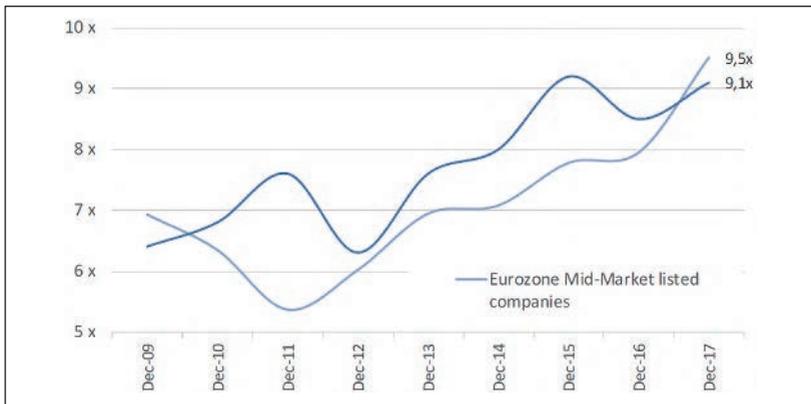


Figure 3: Multiples EV/EBITDA: listed vs non listed  
Source: Argos Mid-Market Index / Epsilon Research / InFront Analytics

<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 were carried out, 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(2) at +16%, compared to 2016, to \$ 862bn.

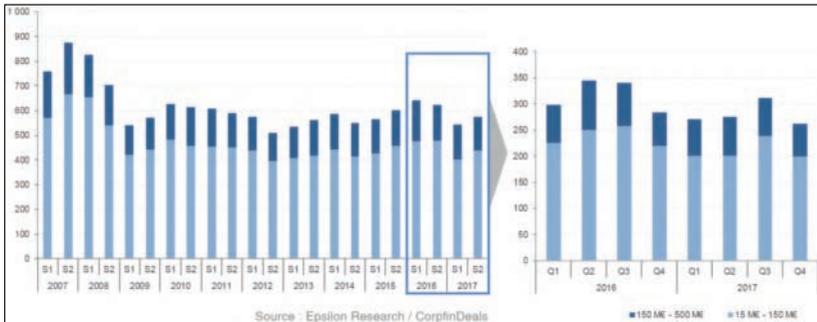


Figure 4: Mid-Market activity in the Eurozone in volume  
Source: Epsilon Research / CorpinDeals

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.

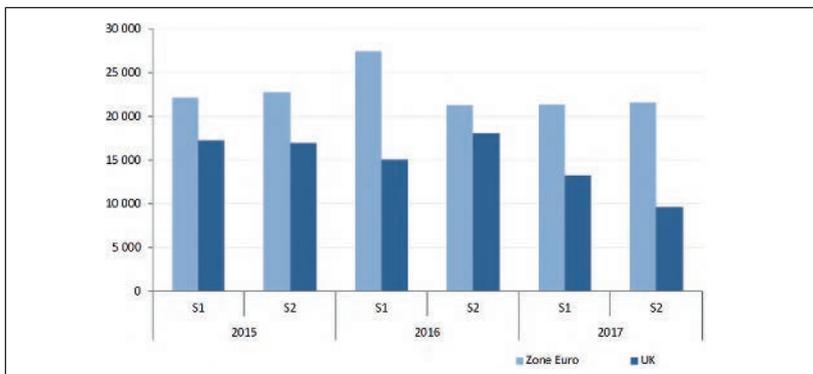


Figure 5: Mid-Market M&A Deals – Value – Eurozone vs UK  
Source: Thomson Reuters

## 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 to the other Argos Index. 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	96	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

Study has been prepared by Argos Soditic & Epsilon Research

