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European M&A Overview

Observations on the European Equity Market

- As the Financial Times pointed out, we now have the paradoxical situation in which private valuations are starting to exceed public market valuations;
- The impact of which is that PE funds turns to less high-profile sectors;
- The majority of activity is from non-bank funded players which also means they want to gain an in-depth insight into the business;
- As a consequence, there's a need to spend time and get "under the skin" of a company, hence transactions are not hastily done (i.e. take longer time);
- Debt-funded private equity houses (among others) have pushed up valuations and price expectations among target companies;
- And partly because of the low interest rate environment, trade sales are relatively scarce;
- As a result of this trend, capital invested remained steady in 2014 across Europe while deal counts were down (Pitchbook European PE Breakdown 2015);
- For 2015, investors are expecting brighter days ahead;

- According to MergerMarket, the pharmaceutical, medical & biotech sector came in on top in Europe by value accounting for a 13.8% market share, while the consumer sector came in second place (11.9% market share), followed by energy, mining & utilities (11.7%) and telecommunications (10.9%);
- In terms of deal count, the industrials & Chemicals sector was the most active for the year 2014, with consumer and business services in second and third positions respectively;
- European PE firms closed on more buyouts for less capital in 2014 than in 2013, reflecting a shift in strategy from platform buyouts to more bolt-ons (Pitchbook European PE Breakdown 2015);
- Yet growth equity investing doesn't appear to be gaining much traction in Europe: unlike the U.S., where many PE firms have diversified their strategies to include more growth rounds and more add-ons, European funds have decreased the use of minority transactions from a post-crisis peak of 454 in 2010 to 299 in 2014;
- The buy-and-build strategy, however, is gaining more of a following on the European continent, as bolt-ons tend to involve less capital and are viewed as relatively safe ways to build companies via acquisitive growth;

- Generally speaking, there seem to be very positive views on opportunities for European private equity, particularly for smaller transaction sizes;
- Europe is regarded as a large, broad and diverse marketplace, that has seen successes during the recovery to date, and offering more opportunities if and when the recovery does pick up its pace;
- Especially in consumer businesses, Europe remains a strong buying opportunity for long-term investors;

Valuations - Investment Multiples

- It's becoming increasingly difficult to understand (market) price formation;
- New companies, for example, are commonly valued at a multiple over established players, something reminiscent of the 1999-2000 debate over the New vs. Old Economy (the New Economy of course collapsed soon after);
- The case in point in December was Xiaomi (the Chinese mobile handset maker) raising $1.1bn at a valuation of $45bn, making it the world's highest-valued technology startup, and 3x as valuable as Hong Kong listed Lenovo (which has a similar share of the Chinese smartphone market);

- In 2013, the average EBITDA multiple across Belgian SMEs was 5 times according to the Buyout Monitor;
- This multiple increased to 5,6x in 2014;
- For smaller transaction below Euro 5mio, the multiple remained at the same level as the previous year;
- The big jump can be found in the middle-large and larger transactions: for those between Euro 5 and 20mio the multiple increased from 4,9 to 5,5x. For transactions above Euro 20mio, the multiple increased from 5,7 to 6,8x (across sectors);
- These latter category's multiples are close to pre-crisis level, and many experts foresee that valuations in 2015 will remain at the same level, or might slightly increase;
- Generally, the Belgian multiples are comparable to international standards with a healthy transaction market;
- Pitchbooks Global PE 2014 Report states that the $250 million+ category pushed the median EBITDA multiple up a notch to 6.9x internationally, while the number of transactions with multiples of 5x or higher steadily grew over 2014;
- Revenue multiples overall flatlined around 1.3x: as multiples within the $250 million+ bucket continued to fall, transactions between $25 million and $50 million saw a slight, counterbalancing rise;
- Revenue multiples across all deals have fluctuated considerably, yet the steady, year-on-year increase in the percentage of transactions at 1x or greater reflects the slow rise of valuations overall across the industry;

- The M&A Advisor Investor Outlook for 2015 found that business services have the highest valuations in Europe: valuations are still seven to eight times EBITDA, which is seen as very attractive for a high growth asset with the right team;

Sources

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MergerMarket, Report on Global M&A Activity, December 2014

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Gert Van der Linden

vdlinden@donedeal.eu

+33 68086 0289