

Where do private company prices stand after the crisis ?

SME transaction multiples up 7% in H1 2010

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Private company directors often question how the 2008-2009 crisis impacted the value of their company or that of potential acquisition targets. In other words, have acquisition multiples stopped falling – and is it now time to get back into the M&A market?

Giving a clear answer looks difficult at first sight: there are still very few reliable sources of information on acquisition multiples for private companies. Indeed, multiples can only be relied on if the underlying M&A transactions have been analyzed in detail. This is a lengthy process that in the past only investment banks with large teams of analysts have taken the time to do properly.

This is changing, and information on private company prices can now be accessed by both professional advisers and companies: with its own team of financial analysts, the independent M&A intelligence provider Epsilon Research has established EMAT (“Epsilon Multiple Analysis Tool”), a unique online source of transaction multiples covering small and mid market deals in Europe. Each transaction is analyzed in detail including: research covering all available information (professional databases, publicly available information such as company accounts, press releases, annual reports of buyers / sellers, press articles, etc.); verification process, cross-checking, restating financial data; analysis of target activity and of the context of the deal; calculating and analyzing acquisition multiples; rating the reliability of the multiples.

Based on multiples calculated for 3.500+ transactions since 2004, Epsilon Research publishes various price indices and sector studies. The first index launched by Epsilon Research in



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2007, in partnership with the private equity fund Argos Soditic (the “Argos Mid Market Index”) tracks price movements for privately owned Euro Zone companies in all sectors. Published every six months, this study has become a leading indicator for private market M&A players. It is based on median EV/ EBITDA multiples (derived from EMAT), calculated on a twelve-month rolling basis from an extensive sample of mid-market M&A transactions (equity value in the €15-150m range).

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What does this index tell us about private company prices since 2007?

- Transaction multiples have fallen in aggregate by 30%, from 9.0x to 6.0x historic EBITDA between 2007 and 2009, and are now below their 2004 level (of 6.9x).
- The price paid by strategic (non financial) buyers has fallen 38% (from 10.0x in 2007 to 6.2x EBITDA in 2009). Listed companies and foreign buyers, who have traditionally been prepared to pay higher prices for their acquisitions (and fuelled the 2005-2007 M&A price bubble) have partially withdrawn from the euro zone M&A market.
- The price paid by mid market LBO funds finally fell a year later than overall market prices – in 2009 – after four stable years (7.5x/8.0x historic EBITDA between 2005 and 2008), as funds were impacted by the shut down of the acquisition finance market and had to concentrate on managing their existing portfolios.
- As revealed by the latest Argos Mid Market Index (June 2010), valuations appear to have reached a trough in H2 2009. In H1 2010, price multiples rose for the first time in three years to 6.4x historical EBITDA, an increase of 7% over the level recorded in December 2009. This increase was principally driven by strategic buyers returning to the market. Multiples paid by LBO funds showed only a marginal increase in aggregate, but this apparent stability masked a dual trend: on the one hand a rise in multiples paid for profitable companies which have withstood the financial crisis well, on the other, a further decrease in multiples paid for

companies whose results have not returned to their pre-crisis levels.

These price movements are analyzed in detail in the indices published twice a year by Epsilon Research and Argos Soditic (available on www.epsilon-research.com). However these indices, which aggregate transaction multiples from all business sectors, are only indicative of relative values and cannot be used as a company valuation tool. For CEOs/CFOs wishing to monitor transaction multiples in their sector, Epsilon offers (via its web site):

- Annual subscriptions to the EMAT database, including sector specific subscription options;
- Free email alerts sent when new deal reports are published in any chosen sector;

- Sector valuation studies, all based on the analysis of recent transaction multiples: recent and upcoming studies include "Wind Energy M&A Report" (published in Oct. 2010), "Long Term Care for the Elderly in France vs. Europe" (Nov. 2010, in cooperation with the consulting firm Candestic), "Solar Energy M&A Report" (Nov.2010).

In a recent survey conducted by Epsilon Research for the French M&A industry association CNCFA, more than 85% of independent M&A advisers said they think that SME owners and managers over-estimate the value of their firm, resulting in M&A processes that are much longer and more complex than necessary. Epsilon Research aims

to help improve the situation by giving business owners and managers a better understanding of the market value of their firms. By increasing transparency in private company market pricing and enabling a better understanding of how company prices are structured and evolve, Epsilon Research's ambition is to promote greater efficiency in the SME investment/ acquisition process. A common understanding of private company market pricing will ultimately lead to an increase in value creation, shared between all market participants.■

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Epsilon Research is an independent research bureau specialising in private company M&A transaction analysis. It provides deal analysis, market intelligence and pricing indices for the European M&A and private equity markets.

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