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Boost to buyouts as trade buyers lower mid-market bids

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Competition for European mid-market assets is set to fall as constraints on financing force trade buyers to revise down bid prices, potentially handing a boost to private equity firms, according to new research.

Trade buyers are finding it more difficult to pay for acquisitions amid the credit crunch and are "inclined to limit their acquisition prices in order to avoid dilution of their own shareholders," according to a report by Argos Soditic, a Swiss mid-market buyout group.

Data company Epsilon Research produced the report on behalf of Argos Soditic and sampled 668 transactions in the European region with equity values in the range of €15m ($23.6m) to €150m.

In the second half of last year, trade buyers "revised downwards the acquisition multiples they were willing to pay" to 8.5 times earnings before interest, tax, depreciation and amortisation. This represents a drop of about 14% from an average of 9.9 times ebitda in the first half, according to Argos, which added it could fall further in the first half of this year.

In comparison, acquisition prices paid by leveraged buyout funds for mid-market deals remain "remarkably stable" at 7.6 times ebitda, despite a deterioration in favourable deal conditions.

The report said trade buyers were rowing back on acquisition prices after pushing them up in the 18 months to the middle of last year "thanks to particularly favourable conditions including plenty of cash for acquisitions, easy access to debt and high stock market valuations".

The scaling back of trade buyers' ambitions could mean private equity firms have more success in targeting mid-market companies.

Thierry Baudon, managing partner at mid-market buyout group Mid Europa Partners, said: "[Private equity firms'] real competition has been trade buyers and it has been that situation for a long time. It is even more so now that the debt markets have tightened. Trade buyers are usually prepared to pay more than we do because they can afford lower returns over a longer period."

Argos said buyout groups were able to better absorb the impact of the tightening credit conditions because record amounts of capital raised meant firms could increase the amount of equity in deals. This would mean accepting lower returns on deals with greater reliance on value creation through development and growth and less on leverage.

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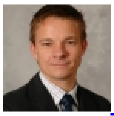
-  KCG confirms hire of UBS equities star
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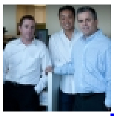
-  Flash Boys heroes to tour Europe

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