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Mid-cap GPs pay less than corporates as entry multiples drop

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25 Jul 2012, Gregoire Gille, unquote



Set against the gloomy backdrop of a 40% activity decline quarter-on-quarter, the median multiple paid by buyout houses fell by 10.8% compared to the last quarter – and by 14.3% since the beginning of the year – to 6.6x EBITDA. The figure is similar to the one witnessed in June 2010 and, although far off the historical low of 5.3x reached in December 2009, it is down nearly 10% from the 7.3x multiple seen at the same time last year.

Contrary to some of the previous Argos indexes, the median result doesn't seem to be hiding great disparities between transactions either, says Argos Soditic partner Karel Kroupa: "The variance has narrowed significantly compared to previous indexes. On the one hand the sample base is much smaller given the drop in buyout activity, and we saw less acute pricing extremes on either end of the mean this time around."

Argos president Gilles Mougenot (*pictured*) is left unfazed by this steady decline given the current environment: "[Declining entry multiples] can be explained by the persistent low visibility on businesses' activity levels, which increases the sellers' 'wait-and-see' approach and encourages prudence in buyers." He also points out that the post-elections situation in France – Europe's second largest private equity market – doesn't help: "The current uncertainty surrounding the fiscal framework, notably with regards to the taxation of capital gains on divestments, is not particularly conducive to buying and selling assets."

On the other hand, the median multiple paid by corporates in similarly sized transactions increased slightly to 7.5x EBITDA in Q2, up from 7.2x in April. Furthermore, strategic buyers coming from outside the eurozone,

and notably from the US, drove the majority of completions for the first time in the index: foreign buyers generated 51% of dealflow, while European corporates were responsible for two thirds of the deals completed on average over the 2000-2011 period. [As unquote" reported last month](#), a recent rise in trade sales highlighted the appetite for M&A displayed by strategic buyers, with US corporates in particular buying several high-profile assets off GPs in the first half of 2012.

Kroupa notes that on top of a lower willingness to perform bolt-ons among European corporates, their US counterparts also benefited indirectly from the misfortunes of the continent: "US strategic buyers definitely benefited from the comparatively strong dollar, which granted them a near 30% increase in their purchasing power." Meanwhile, strategic buyers, regardless of their nationality, are also seeing one of their past weaknesses negated in the current environment. "The fact that sale processes tend to last longer nowadays favours corporates," says Mougenot. "They might have missed on deals in the past as they didn't have time to do their due diligence and plan for the acquisition, but this is not the case anymore."

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