

Buy & Build activity in Europe significantly weaker in H2 2011

Silverfleet Capital, in conjunction with mergermarket, has published the findings of its 2011 Buy & Build Monitor which show a significant slowdown in Buy & Build activity.

Headline Findings

1. While overall 2011 saw Buy & Build activity increase both in volume and value terms, the number of add-on transactions decreased considerably during the second half of the year slumping to levels last seen at the end of 2009
2. 2011 saw the highest number of add-ons undertaken by private equity-backed portfolio companies since 2008, at 364 (versus 335 in 2010). However, despite a strong start to the year, with 210 add-ons undertaken in H1, the second half of the year saw activity levels decline significantly, with only 154 add-ons undertaken in H2
3. In H1 the average value of add-ons was £70 million, which was the highest since we began tracking Buy & Build activity on a quarterly basis in Q1 2008, however in H2 this figure fell to £57 million, with Q4 seeing an average add-on value of only £34 million

Comment

Commenting on the findings, Neil MacDougall, Managing Partner of Silverfleet Capital said: "The downward trend in Buy & Build activity we first observed in Q3 continued in Q4 and there is now clear empirical evidence of the negative impact that the European sovereign debt crisis has had. We can only speculate on what the exact causes are, but we would expect that they include a drop in overall business confidence as well as the much tougher market for bank financing."

"While Buy & Build strategies have been more difficult for European companies to pursue in recent months, private equity portfolio companies have of course several other ways to create value. For example, OFFICE, a shoe retail company which we acquired in December 2010, has continued rolling-out into new locations. In 2011 the company opened 8 new stores and 8 new concessions which on top of strong like-for-like growth contributed to a very healthy uplift in profitability."

Detailed Report

The graph below of add-on activity levels by quarter compared to the volume of European mid-market M&A shows the continued close correlation between these statistics.

Buy & Build activity in the final quarter of 2011 continued to be weak both in terms of volumes (74 add-ons) and values (disclosed values were on average only £34 million). While we would expect as usual some upward revision of these numbers as further information emerges over the coming months, the trend is nevertheless clear if analysed on a quarterly rather than annual basis.

For 2011, the number of add-ons undertaken by private equity-backed portfolio companies reached a 3-year high of 364, versus 335 in 2010 and 236 in 2009. But, conversely, the Q4 level of add-ons was, at 74, only the same approximate level as the 75 add-ons that were completed in Q4 2009.

In terms of the average disclosed value of add-ons, in Q1 2011 this was £92 million, falling to £50 million in Q2, £70 million in Q3 and then a very modest £34 million in Q4, the lowest level since Q2 2009.

As this new trend has now been consistent for the last two quarters the dichotomous nature of Buy & Build activity in 2011 is we believe best illustrated by the graph below which analyses the data by half years.

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As shown above the level of Buy & Build activity had recently started to outstrip overall mid-market M&A in Europe but has now clearly fallen back in line. We suspect that the much tougher market for bank financing, often used wholly or partly by the acquiring entity to fund acquisitions, is probably a large part of the explanation for this development. In addition, it may be that with their existing banking covenants to bear in mind, management and buyout firms are taking a more cautious approach to corporate activity while the economic outlook for the Eurozone remains uncertain.

Since 2003, Silverfleet Capital has, together with mergermarket, been analysing the trends in Buy & Build activity within the European private equity market. In 2010 Silverfleet Capital began publishing a quarterly update to the Buy & Build Monitor in addition to an annual review.

Notes about methodology

The data prepared by mergermarket only includes add-on acquisitions made by companies with over 30% of their equity held by a private equity fund where the platform business is a European company. In addition, the value of the add-on needs to exceed €5 million or else the target should have at least €10 million of sales to be included.

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